



**UNITED STATES – CONDITIONAL TAX INCENTIVES
FOR LARGE CIVIL AIRCRAFT**

AB-2016-8

Report of the Appellate Body

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ABBREVIATIONS USED IN THIS REPORT

Abbreviation	Description
aerospace tax measures	The B&O aerospace tax rate and a series of other tax credits or exemptions relating to product development activities, property and leasehold taxes, and sales and use taxes
B&O	business and occupation
B&O aerospace tax rate	B&O tax rate that applies to business activities concerning the manufacture and sale of commercial airplanes
BCI	business confidential information
DSB	Dispute Settlement Body
DSU	Understanding on Rules and Procedures Governing the Settlement of Disputes
ESSB 5952	Engrossed Substitute Senate Bill 5952, Chapter 2, Laws of 2013 3rd Special Session, 2014 Wash. Sess. Laws 2, codified in the <i>Revised Code of Washington</i> (Panel Exhibit EU-3)
First Siting Provision	ESSB 5952 (Panel Exhibit EU-3), Section 2
GATT 1994	General Agreement on Tariffs and Trade 1994
Panel Report	Panel Report, <i>United States – Conditional Tax Incentives for Large Civil Aircraft</i> , WT/DS487/R
SCM Agreement	Agreement on Subsidies and Countervailing Measures
Second Siting Provision	ESSB 5952 (Panel Exhibit EU-3), Sections 5-6(11)(e)(ii)
Washington	state of Washington
Working Procedures	Working Procedures for Appellate Review, WT/AB/WP/6, 16 August 2010
WTO	World Trade Organization

CASES CITED IN THIS REPORT

Short Title	Full Case Title and Citation
<i>Canada – Aircraft</i>	Appellate Body Report, <i>Canada – Measures Affecting the Export of Civilian Aircraft</i> , WT/DS70/AB/R, adopted 20 August 1999, DSR 1999:III, p. 1377
<i>Canada – Aircraft (Article 21.5 – Brazil)</i>	Appellate Body Report, <i>Canada – Measures Affecting the Export of Civilian Aircraft – Recourse by Brazil to Article 21.5 of the DSU</i> , WT/DS70/AB/RW, adopted 4 August 2000, DSR 2000:IX, p. 4299
<i>Canada – Autos</i>	Appellate Body Report, <i>Canada – Certain Measures Affecting the Automotive Industry</i> , WT/DS139/AB/R, WT/DS142/AB/R, adopted 19 June 2000, DSR 2000:VI, p. 2985
<i>EC and certain member States – Large Civil Aircraft</i>	Appellate Body Report, <i>European Communities and Certain Member States – Measures Affecting Trade in Large Civil Aircraft</i> , WT/DS316/AB/R, adopted 1 June 2011, DSR 2011:I, p. 7
<i>EC and certain member States – Large Civil Aircraft (Article 21.5 – US)</i>	<i>European Communities and Certain Member States – Measures Affecting Trade in Large Civil Aircraft – Recourse to Article 21.5 of the DSU by the United States</i> , WT/DS316/RW and Add.1, circulated to WTO Members 22 September 2016 [Panel Report currently under appeal]
<i>US – Anti-Dumping Measures on Oil Country Tubular Goods</i>	Appellate Body Report, <i>United States – Anti-Dumping Measures on Oil Country Tubular Goods (OCTG) from Mexico</i> , WT/DS282/AB/R, adopted 28 November 2005, DSR 2005:XX, p. 10127

Short Title	Full Case Title and Citation
<i>US – Carbon Steel (India)</i>	Appellate Body Report, <i>United States – Countervailing Measures on Certain Hot-Rolled Carbon Steel Flat Products from India</i> , WT/DS436/AB/R, adopted 19 December 2014, DSR 2014:V, p. 1727
<i>US – Continued Zeroing</i>	Appellate Body Report, <i>United States – Continued Existence and Application of Zeroing Methodology</i> , WT/DS350/AB/R, adopted 19 February 2009, DSR 2009:III, p. 1291
<i>US – Superfund</i>	GATT Panel Report, <i>United States – Taxes on Petroleum and Certain Imported Substances</i> , L/6175, adopted 17 June 1987, BISD 34S, p. 136
<i>US – Tax Incentives</i>	Panel Report, <i>United States – Conditional Tax Incentives for Large Civil Aircraft</i> , WT/DS487/R and Add.1, circulated to WTO Members 28 November 2016

WORLD TRADE ORGANIZATION
APPELLATE BODY

***United States – Conditional Tax Incentives
for Large Civil Aircraft***

AB-2016-8

United States, *Appellant/Appellee*
European Union, *Other Appellant/Appellee*

Appellate Body Division:

Australia, *Third Participant*
Brazil, *Third Participant*
Canada, *Third Participant*
China, *Third Participant*
Japan, *Third Participant*
Korea, *Third Participant*
Russia, *Third Participant*

Graham, Presiding Member
Servansing, Member
Van den Bossche, Member

1 INTRODUCTION

1.1. The United States and the European Union each appeals certain issues of law and legal interpretations developed in the Panel Report, *United States – Conditional Tax Incentives for Large Civil Aircraft*¹ (Panel Report). The Panel was established on 23 February 2015 to consider a complaint by the European Union² with respect to measures taken by the United States concerning certain tax incentives for large civil aircraft.

1.2. Before the Panel, the European Union challenged certain tax-related measures provided by the state of Washington (Washington), as amended by Washington Engrossed Substitute Senate Bill 5952³ (ESSB 5952), specifically: (i) a reduction in the business and occupation (B&O) tax rate that applies to business activities concerning the manufacture and sale of commercial airplanes (B&O aerospace tax rate); and (ii) a series of other tax credits or exemptions relating to product development activities, property and leasehold taxes, and sales and use taxes – collectively, the "aerospace tax measures".⁴ The European Union claimed that these tax incentives are prohibited under Articles 3.1(b) and 3.2 of the Agreement on Subsidies and Countervailing Measures (SCM Agreement) as subsidies contingent upon the use of domestic over imported goods.⁵

1.3. The European Union identified two "siting" provisions in ESSB 5952 that govern the availability of the challenged tax incentives.⁶ The First Siting Provision pertains to all of the aerospace tax measures and states that the tax incentives will take effect "upon the siting of a significant commercial airplane manufacturing program" in Washington.⁷ Both parties agreed that the First Siting Provision has been fulfilled in respect of Boeing's 777X aircraft program, and that the challenged tax incentives are therefore in effect.⁸ The Second Siting Provision concerns the continued availability of the B&O aerospace tax rate only, and provides that the reduced tax rate will no longer apply if there is a determination by the Washington Department of Revenue "that any final assembly or wing assembly of any version or variant of a commercial airplane that is the basis of a siting of a significant commercial airplane manufacturing program" under the First Siting Provision has been sited outside of Washington.⁹

¹ WT/DS487/R, 28 November 2016.

² Request for the Establishment of a Panel by the European Union of 12 February 2015, WT/DS487/2.

³ Engrossed Substitute Senate Bill 5952, Chapter 2, Laws of 2013 3rd Special Session, 2014 Wash. Sess. Laws 2, codified in the *Revised Code of Washington* (ESSB 5952) (Panel Exhibit EU-3). (Panel Report, paras. 2.1 and 7.15)

⁴ Panel Report, section 7.3.1.

⁵ Panel Report, paras. 7.1 and 7.3.

⁶ Panel Report, section 7.3.2.

⁷ Panel Report, para. 7.28 (quoting ESSB 5952 (Panel Exhibit EU-3), Section 2).

⁸ Panel Report, paras. 7.31 and 7.33.

⁹ Panel Report, para. 7.32 (quoting ESSB 5952 (Panel Exhibit EU-3), Sections 5-6(11)(e)(ii)), and para. 7.33.

1.4. In the Panel Report, circulated to Members of the World Trade Organization (WTO) on 28 November 2016, the Panel found that each of the aerospace tax measures at issue constitutes a subsidy within the meaning of Article 1 of the SCM Agreement.¹⁰ The Panel also found that, although the European Union had not demonstrated that any of the aerospace tax measures are *de jure* contingent upon the use of domestic over imported goods with respect to the First or Second Siting Provisions in ESSB 5952, whether considered jointly or separately¹¹, the B&O aerospace tax rate for the manufacturing or sale of commercial airplanes under Boeing's 777X aircraft program is a subsidy *de facto* contingent upon the use of domestic over imported goods within the meaning of Article 3.1(b) of the SCM Agreement.¹² Accordingly, the Panel also found that the United States had acted inconsistently with Article 3.2 of the SCM Agreement.¹³

1.5. On 5 December 2016, the Appellate Body received a letter from the European Union referring to an imminent appeal in this dispute, to the ongoing appeal in *EC and certain member States – Large Civil Aircraft (Article 21.5 – US)* (DS316), and to the anticipated appeal in *US – Large Civil Aircraft (2nd complaint) (Article 21.5 – EC)* (DS353). Referring to Rules 16(1) and 16(2) of the Working Procedures for Appellate Review¹⁴ (Working Procedures) and Article 9 of the Understanding on Rules and Procedures Governing the Settlement of Disputes (DSU), the European Union requested that the schedules for these three appeals be harmonized to the greatest extent possible and that the hearings be sufficiently proximate in time, so that a particular matter would not be effectively disposed of in one appeal before the related matter is heard in one of the other appeals. The Chair of the Appellate Body invited the other party in these disputes, the United States, and the third parties to submit comments by 9 December 2016. The United States argued that the European Union's request was not supported by the DSU or the Working Procedures, and would result in delays in the proceedings, but that it remained open to proposals to set deadlines for submissions and dates for oral hearings in a way that would allow the participants and third participants in each dispute to advocate effectively their positions on appeal, and for the Appellate Body to consider fully the issues raised.¹⁵ The participants and third parties were invited to submit additional comments by 16 December 2016. The European Union reiterated its request that any oral hearings in these appeals be sufficiently proximate in time, but noted that it was content to leave it to the Appellate Body to determine what that would mean in practice.¹⁶ By letter dated 22 December 2016, the Appellate Body indicated that it would bear in mind the European Union's request, as well as the comments received, during the appellate proceedings in these three disputes.

1.6. On 16 December 2016, the United States notified the Dispute Settlement Body (DSB), pursuant to Articles 16.4 and 17 of the DSU, of its intention to appeal certain issues of law covered in the Panel Report and certain legal interpretations developed by the Panel, and filed a Notice of Appeal¹⁷ pursuant to Rule 20 of the Working Procedures.

1.7. Also on 16 December 2016, the Appellate Body received a joint letter from the European Union and the United States requesting the Division hearing this appeal to adopt additional procedures to protect business confidential information (BCI) in these appellate proceedings. In their letter, the European Union and the United States argued that BCI procedures are needed in these proceedings to avoid the undue risk of detrimental disclosure of particularly sensitive confidential information provided by the United States to the Panel, and proposed that the additional procedures adopted by the Appellate Body in the ongoing appeal in *EC and certain member States – Large Civil Aircraft (Article 21.5 – US)* (DS316), with adjustments to remove references to highly sensitive business information, form the basis for any procedural ruling on confidentiality in these appellate proceedings.

1.8. On the same day, the Chair of the Appellate Body sent a letter to the participants and third parties indicating that the Division hearing this appeal had decided to suspend the deadlines that would otherwise apply under the Working Procedures for the filing of submissions and other documents in this appeal. On behalf of the Division, the Chair of the Appellate Body invited the

¹⁰ Panel Report, paras. 7.165 and 8.1.a.

¹¹ Panel Report, paras. 7.297, 7.311, 7.317, and 8.1.b.

¹² Panel Report, paras. 7.369 and 8.1.c.

¹³ Panel Report, para. 8.2.

¹⁴ WT/AB/WP/6, 16 August 2010.

¹⁵ Comments were also received from Canada, China, and Japan.

¹⁶ Comments were also received from the United States and Australia.

¹⁷ WT/DS487/6.

third parties to comment in writing on the joint request by the European Union and the United States by 20 December 2016. Australia submitted written comments, indicating that it did not object to the joint request, provided that the proposed procedures were not implemented in a manner that unduly restricted the ability of third participants to gain reasonable access to information, or to engage in meaningful participation in the proceedings. Taking into account the arguments made by the participants and the comments by Australia, the Chair of the Appellate Body, on behalf of the Division hearing this appeal, issued a Procedural Ruling on 22 December 2016 adopting additional procedures to protect the confidentiality of BCI in these appellate proceedings.¹⁸ On the same day, the Division provided the participants and third parties with a Working Schedule for Appeal, setting out the dates for the filing of written submissions.

1.9. On 5 January 2017, the Chair of the Appellate Body received a communication from the United States requesting that the Division modify the deadline for the filing of the United States' appellant's submission. Relying on Rule 16(2) of the Working Procedures, the United States maintained that exceptional circumstances in these proceedings justified an extension of the deadline from 10 January to 17 January 2017. On the same day, the Chair of the Appellate Body, on behalf of the Division hearing this appeal, invited the European Union and the third parties to comment in writing on the United States' request. The European Union indicated that it did not, in principle, oppose the United States' request, but observed that the United States had had more than five months since receipt of the final Panel Report to prepare its appellant's submission, and that the time periods in this dispute were subject to the expedited treatment required by Article 4.12 of the SCM Agreement. No comments were received from the third parties.

1.10. On 6 January 2017, the Chair of the Appellate Body, on behalf of the Division hearing this appeal, issued a Procedural Ruling¹⁹ in which the Division observed that: (i) under normal circumstances – i.e. where the schedule had not been revised to allow for additional procedures to protect BCI – the United States would have already prepared and filed its appellant's submission on 16 December 2016; (ii) at the time of the request for additional procedures to protect BCI, the United States had not requested more time to prepare the contents of its appellant's submission; (iii) the scheduling of the deadlines for the United States' submissions in this appeal and in *EC and certain member States – Large Civil Aircraft (Article 21.5 – US)* would not impede its ability to finalize the submissions; (iv) there had already been a delay in the deadline due to the WTO's end-of-year closure; and (v) the United States itself had indicated that its appellant's submission would not be exceptionally lengthy. For these reasons, the Division declined the United States' request, and affirmed the deadline for the filing of its appellant's submission for 10 January 2017.

1.11. On 17 January 2017, the European Union notified the DSB, pursuant to Articles 16.4 and 17 of the DSU and Article 4.8 of the SCM Agreement, of its intention to appeal certain issues of law covered in the Panel Report and certain legal interpretations developed by the Panel, and filed a Notice of Other Appeal²⁰ and an other appellant's submission pursuant to Rule 23 of the Working Procedures. On 8 February 2017, the European Union and the United States each filed an appellee's submission.²¹ On 21 February 2017, Australia, Brazil, Canada, China, and Japan each filed a third participant's submission.²² On the same day, Korea and Russia each notified its intention to appear at the oral hearing as a third participant.²³

1.12. By letter of 3 March 2017, the Chair of the Appellate Body notified the Chair of the DSB that the Appellate Body would not be able to circulate its Report in this appeal within the 30-day or 60-day period set out in Article 4.9 of the SCM Agreement.²⁴ The Chair of the Appellate Body explained that this was due to a number of factors, including the time needed for adopting and complying with additional procedures to protect BCI, the consequent extensions of the deadlines for filing submissions, overlapping issues identified by the participants in parallel proceedings, as

¹⁸ The Procedural Ruling of 22 December 2016 is contained in Annex D-1 of the Addendum to this Report, WT/DS487/AB/R/Add.1.

¹⁹ The Procedural Ruling of 6 January 2017 is contained in Annex D-2 of the Addendum to this Report, WT/DS487/AB/R/Add.1.

²⁰ WT/DS487/7.

²¹ Pursuant to Rules 22 and 23(4) of the Working Procedures.

²² Pursuant to Rule 24(1) of the Working Procedures.

²³ Pursuant to Rules 24(4) and 24(2), respectively, of the Working Procedures. India is not a third participant in these appellate proceedings as it did not file a written submission pursuant to Rule 24(1) of the Working Procedures or appear at the oral hearing.

²⁴ WT/DS487/8/Rev.1.

well as the substantial workload faced by the Appellate Body, the overlap in the composition of the Divisions hearing several concurrent appeals, and the shortage of staff in the Appellate Body Secretariat.

1.13. On 1 June 2017, the Division received a communication from the United States proposing additional procedures to protect BCI during the oral hearing and requesting public observation of the opening statements at the hearing. On the same day, the Division invited the European Union and the third participants to comment in writing on the United States' request. The European Union expressed its support for the United States' request, but noted that it should be for the Appellate Body to decide whether or not sufficient time remained to organize public observation of the opening statements. Australia supported the United States' request, indicating that it considered that the request helpfully provided transparency and appropriately protected BCI. Brazil expressed its concern regarding the timeliness of the request and what measures might be needed to comply with the request. China submitted that the United States' request to exclude non-BCI-Approved Persons of the third participants from the question-and-answer session would significantly constrain the ability of third participants to engage fully in the oral hearing. No comments were received from the remaining third participants.

1.14. On 2 June 2017, the Division issued a Procedural Ruling²⁵ regarding the United States' request. In that Ruling, the Division indicated that, as provided in its Procedural Ruling of 22 December 2016 on the protection of BCI, Third Participant BCI-Approved Persons were invited to attend the session of the oral hearing in which BCI may be discussed. The Division considered that this was sufficient to allow the third participants to be represented properly at the oral hearing. Regarding the United States' request concerning public observation of the opening statements at the oral hearing, the Division expressed its strong concern regarding the timeliness of that request. While deciding, by majority, to grant exceptionally the United States' request regarding public observation, as supported by the European Union, the Division also underscored the importance for participants wishing to request public observation of all or part of oral hearings in disputes to make such requests in a timely fashion, taking into account the due process rights of other participants and third participants and the burden on WTO Secretariat resources. The Division thus adopted in its Procedural Ruling additional procedures on the conduct of the oral hearing, including procedures pertaining to public observation of the opening statements of Member delegations that had agreed to have their statements made public.

1.15. The oral hearing in this appeal was held on 6 June 2017. The participants and third participants (with the exception of Russia) made oral statements and responded to questions posed by the Members of the Appellate Body Division hearing the appeal. Delayed public broadcast of the opening statements of the participants and third participants (with the exception of Brazil and China) took place on 5 July 2017.

1.16. On 9 August 2017, the Division informed the participants and third participants that it had not found it necessary to include BCI in the Appellate Body Report in this appeal. On 28 August 2017, the Division provided a confidential advance copy of the Report to the participants, and the participants confirmed that no BCI had been inadvertently included in the Report. On 31 August 2017, the Chair of the Appellate Body informed the Chair of the DSB that the Appellate Body Report in these proceedings would be circulated on 4 September 2017.²⁶

2 ARGUMENTS OF THE PARTICIPANTS

2.1. The claims and arguments of the participants are reflected in the executive summaries of their written submissions provided to the Appellate Body.²⁷ The Notices of Appeal and Other Appeal, and the executive summaries of the participants' claims and arguments, are contained in Annexes A and B of the Addendum to this Report, WT/DS487/AB/R/Add.1.

²⁵ The Procedural Ruling of 2 June 2017 is contained in Annex D-3 of the Addendum to this Report, WT/DS487/AB/R/Add.1.

²⁶ WT/DS487/9.

²⁷ Pursuant to the Appellate Body communication on "Executive Summaries of Written Submissions in Appellate Proceedings" and "Guidelines in Respect of Executive Summaries of Written Submissions in Appellate Proceedings" (WT/AB/23, 11 March 2015).

3 ARGUMENTS OF THE THIRD PARTICIPANTS

3.1. The arguments of the third participants that filed written submissions are reflected in the executive summaries of those submissions provided to the Appellate Body²⁸, and are contained in Annex C of the Addendum to this Report, WT/DS487/AB/R/Add.1.

4 ISSUES RAISED IN THIS APPEAL

4.1. The following issues are raised in this appeal:

- a. with respect to the Panel's interpretation of Article 3.1(b) of the SCM Agreement in the context of its *de jure* contingency analyses in respect of the First and Second Siting Provisions, and its *de facto* contingency analysis in respect of the First Siting Provision:
 - i. whether the Panel erred in articulating a legal standard requiring the use of domestic goods to the complete exclusion of imported goods (raised by the European Union);
- b. with respect to the Panel's application of Article 3.1(b) of the SCM Agreement in the context of its *de jure* contingency analysis in respect of the First Siting Provision:
 - i. whether the Panel erred in finding that the First Siting Provision does not, expressly or by necessary implication from its words, require Boeing to use domestic over imported goods (raised by the European Union);
- c. with respect to the Panel's application of Article 3.1(b) of the SCM Agreement in the context of its *de jure* contingency analysis in respect of the Second Siting Provision:
 - i. whether the Panel erred in its application of Article 3.1(b) by unduly restricting the scope of the evidence from which it assessed *de jure* contingency in respect of the Second Siting Provision (raised by the European Union); and
 - ii. whether the Panel failed to make an objective assessment of the matter under Article 11 of the DSU by providing an improper reading of the Second Siting Provision (raised by the European Union);
- d. with respect to the Panel's *de facto* contingency analysis under Article 3.1(b) of the SCM Agreement:
 - i. whether the Panel erred in its interpretation and application of Article 3.1(b) in finding that the measure, in particular the Second Siting Provision, reflects a condition requiring the use of domestic over imported goods (raised by the United States); and
 - ii. whether the Panel failed to make an objective assessment of the matter under Article 11 of the DSU in respect of various aspects of the Panel's reasoning (raised by the United States and the European Union).

5 ANALYSIS OF THE APPELLATE BODY

5.1. The European Union and the United States appeal different findings by the Panel.

5.2. In its appeal, the European Union challenges the Panel's findings that the European Union did not demonstrate that the First and Second Siting Provisions, considered separately or jointly, make the United States' aerospace tax measures *de jure* contingent, or that the First Siting Provision makes such measures *de facto* contingent, upon the use of domestic over imported goods under Article 3.1(b) of the SCM Agreement. In particular, the European Union argues that the Panel erred: (i) in its interpretation and application of Article 3.1(b), in not finding that the

²⁸ Pursuant to the Appellate Body communication on "Executive Summaries of Written Submissions in Appellate Proceedings" and "Guidelines in Respect of Executive Summaries of Written Submissions in Appellate Proceedings" (WT/AB/23, 11 March 2015).

First Siting Provision makes the aerospace tax measures *de jure* contingent upon the use of domestic over imported goods; (ii) in its interpretation of Article 3.1(b), and in failing to conduct an objective assessment of the matter under Article 11 of the DSU, in not finding that the First Siting Provision makes the aerospace tax measures *de facto* contingent upon the use of domestic over imported goods; and (iii) in its interpretation and application of Article 3.1(b), and in failing to conduct an objective assessment of the matter under Article 11 of the DSU, in not finding that the Second Siting Provision makes the B&O aerospace tax rate *de jure* contingent upon the use of domestic over imported goods.

5.3. For its part, the United States appeals the Panel's finding that, with respect to the First and Second Siting Provisions, considered jointly, the B&O aerospace tax rate is a subsidy *de facto* contingent upon the use of domestic over imported goods under Article 3.1(b) of the SCM Agreement. In particular, the United States argues that the Panel erred: (i) in interpreting and applying Article 3.1(b) as if it prohibits subsidies conditional upon the domestic siting of production activities; (ii) in its interpretation and application of Article 3.1(b), in finding that the B&O aerospace tax rate for Boeing's 777X aircraft program is contingent upon the "use" of wings for the 777X because Boeing does not and will not "use" wings to produce the 777X; and (iii) in its interpretation and application of Article 3.1(b), in finding that the subsidy is contingent upon the use of "domestic" over "imported" wings because it did not address the meaning of the terms "domestic" and "imported", or examine whether wings resulting from wing assembly in Washington would necessarily be "domestic". Moreover, the United States claims that the Panel failed to make an objective assessment of the matter under Article 11 of the DSU.

5.4. We first set out our interpretation of Article 3.1(b) of the SCM Agreement before turning to the claims on appeal by the European Union and the United States.

5.1 Interpretation of Article 3.1(b) of the SCM Agreement

5.5. Article 3.1(b) of the SCM Agreement reads:

Except as provided in the Agreement on Agriculture, the following subsidies, within the meaning of Article 1, shall be prohibited:

...

(b) subsidies contingent, whether solely or as one of several other conditions, upon the use of domestic over imported goods.

Article 3.2 adds that "[a] Member shall neither grant nor maintain subsidies referred to in paragraph 1."

5.6. The SCM Agreement distinguishes between two categories of subsidies: prohibited subsidies (Part II of the Agreement) and actionable subsidies (Part III of the Agreement). The granting of subsidies is not, in and of itself, prohibited under the SCM Agreement; nor does the granting of subsidies constitute, without more, an inconsistency with that Agreement.²⁹ Only subsidies contingent upon export performance within the meaning of Article 3.1(a) (commonly referred to as export subsidies), or contingent upon the use of domestic over imported goods within the meaning of Article 3.1(b) (commonly referred to as import substitution subsidies), are prohibited *per se* under Article 3 of the SCM Agreement.³⁰ In any event, subsidies, if specific, are disciplined under Part III of the SCM Agreement, but a complaining Member must demonstrate the existence of adverse effects under Article 5 of that Agreement.

5.7. Article 3.1(b) of the SCM Agreement prohibits subsidies the granting of which is "contingent ... upon the use of domestic over imported goods". The Appellate Body has found that the legal standard for establishing the existence of "contingency" under Article 3.1(b) is the same

²⁹ See Appellate Body Report, *Canada – Aircraft (Article 21.5 – Brazil)*, para. 47.

³⁰ In accordance with Article 2.3 of the SCM Agreement, any subsidy falling under the provisions of Article 3 shall be deemed to be specific. A complaining Member that is able to prove the existence of such a prohibited subsidy need not demonstrate that the subsidy also causes adverse effects to the interests of other Members within the meaning of Articles 5 and 6 of the SCM Agreement.

as under Article 3.1(a) of the SCM Agreement.³¹ Since the ordinary meaning of "contingent" is "conditional" or "dependent for its existence on something else", a subsidy would be prohibited under Article 3.1(b) if it is "conditional" or "dependent for its existence on" the use of domestic over imported goods.³² Therefore, a subsidy would be "contingent" upon the use of domestic over imported goods if the use of those goods were a condition, in the sense of a requirement³³, for receiving the subsidy.³⁴

5.8. The word "use" has been interpreted by the Appellate Body as referring to the action of using or employing something.³⁵ Article 3.1(b) does not elaborate on what constitutes "use of ... goods"; nor do other provisions of the SCM Agreement or other covered agreements define this term.³⁶ In the absence of any further guidance, the term "use" may, depending on the particular circumstances, refer to consuming a good in the process of manufacturing, but may also refer to, for instance, incorporating a component into a separate good, or serving as a tool in the production of a good.

5.9. The term "goods" can be read as a synonym for "products".³⁷ Neither the text nor the context of Article 3.1(b) provides any clarification of the type or nature of the goods that are the subject of this provision.³⁸ Thus, this term may refer to any type of good that may be used by the subsidy recipient, including parts or components that are incorporated into another good, materials or substances that are consumed in the production process of another good, or tools or instruments that are used in the production process. In Article 3.1(b), the term "goods" is qualified by the adjectives "domestic" and "imported", which implies that the goods concerned should be at least potentially tradable. However, the broad scope of the terms "use" and "goods" supports the view that the meaning of the term "goods" is not confined to those goods that are actually traded.

5.10. The text of Article 3.1(b) does not qualify the terms "domestic" and "imported". The interpretation of these terms may be informed by Article III:4 of the General Agreement on Tariffs and Trade 1994 (GATT 1994)³⁹, which applies to "products of the territory of any Member imported into the territory of any other Member" and requires that the imported products "be accorded treatment no less favourable than that accorded to like products of national origin".

³¹ Appellate Body Report, *Canada – Autos*, para. 123.

³² Appellate Body Report, *Canada – Autos*, para. 123 (referring to Appellate Body Report, *Canada – Aircraft*, para. 166).

³³ For instance, the Appellate Body observed in *Canada – Autos* that the measure at issue in that case would be inconsistent with Article 3.1(b) if "the use of domestic goods [was] a necessity and thus ... required as a *condition* for eligibility" under the measure. (Appellate Body Report, *Canada – Autos*, para. 130 (emphasis original))

³⁴ Appellate Body Report, *Canada – Autos*, para. 126. The link between "contingency" and "conditionality" is also borne out by the text of Article 3.1(b), which states that import substitution contingency can be the sole or "one of several other *conditions*". (Appellate Body Report, *Canada – Aircraft*, para. 166 (emphasis added by the Appellate Body)) As with Article 3.1(a), this "relationship of conditionality or dependence" lies at the "very heart" of the legal standard in Article 3.1(b) of the SCM Agreement. (Appellate Body Reports, *Canada – Aircraft*, para. 171; *Canada – Aircraft* (Article 21.5 – Brazil), para. 47)

³⁵ See Appellate Body Report, *US – Carbon Steel (India)*, para. 4.374 and fn 1009 thereto (referring to *Shorter Oxford English Dictionary*, 6th edn, A. Stevenson (ed.) (Oxford University Press, 2007), Vol. 2, p. 3484).

³⁶ The term "use" appears in different contexts in the covered agreements. For instance, footnote 61 of Annex II to the SCM Agreement defines "inputs consumed in the production process" as "inputs physically incorporated, energy, fuels and oil used in the production process and catalysts which are *consumed in the course of their use* to obtain the exported product", and paragraph II(3) of Annex II defines "physically incorporated" inputs as "inputs ... *used* in the production process and ... *physically present* in the product exported". (emphases added) Furthermore, Article 2 of the Agreement on Trade in Civil Aircraft requires signatories to eliminate customs duties and charges of products classified under the tariff headings in Annex I to that Agreement, "if such products are for *use in a civil aircraft and incorporation therein*, in the course of its manufacture, repair, maintenance, rebuilding, modification or conversion". (emphasis added)

³⁷ This is also reflected in the other authentic language versions of the SCM Agreement: "*produits*" and "*productos*" in the French and Spanish texts, respectively.

³⁸ The terms "goods" and "products" appear in various provisions throughout the SCM Agreement and other covered agreements, and do not appear to be restricted in themselves to specific types of goods, unless qualified. Thus, e.g. Article 6.3(d) of the SCM Agreement refers to "subsidized *primary* product", and footnote 46 to Article 15 of the SCM Agreement defines "like product" as "*a product which is identical*, i.e. alike in all respects *to the product under consideration*". (emphases added) Articles III:2 and III:4 of the GATT 1994 also broadly refer to "[t]he products of the territory of any Member imported into the territory of any other Member".

³⁹ See Appellate Body Report, *Canada – Autos*, para. 140.

Thus, as a general matter, "domestic" goods can be understood as goods originating within the relevant Member's territory and "imported" goods as goods that cross the border into that Member's territory.

5.11. The term "over" in Article 3.1(b) is a preposition expressing a preference between two things.⁴⁰ This is also reflected in the other authentic language versions of the SCM Agreement, with the French text of Article 3.1(b) reading "*subventions subordonnées ... à l'utilisation de produits nationaux de préférence à des produits importés*", and the Spanish text reading "*las subvenciones supeditadas al empleo de productos nacionales con preferencia a los importados*".⁴¹ In the context of the phrase "contingent ... upon the use of domestic over imported goods", the term "over" therefore refers to the use of domestic goods in preference to, or instead of, imported goods.

5.12. With regard to the term "contingency", the Appellate Body stated in *Canada – Autos* that Article 3.1(b) of the SCM Agreement covers contingency both in law and in fact.⁴² The Appellate Body also noted in *Canada – Aircraft* that the legal standard expressed by the term "contingent" is the same for *de jure* and *de facto* contingency.⁴³ A subsidy will be *de jure* contingent upon the use of domestic over imported goods "when the existence of that condition can be demonstrated on the basis of the very words of the relevant legislation, regulation or other legal instrument constituting the measure", or can "be derived by necessary implication from the words actually used in the measure".⁴⁴ Proving *de facto* contingency "is a much more difficult task".⁴⁵ As the Appellate Body has indicated in the context of Article 3.1(a), the existence of *de facto* contingency "must be *inferred* from the total configuration of the facts constituting and surrounding the granting of the subsidy, none of which on its own is likely to be decisive in any given case".⁴⁶ In *EC and certain member States – Large Civil Aircraft*, the Appellate Body referred to a number of factors that may be relevant in this regard, including the design and structure of the measure granting the subsidy, the modalities of operation set out in such a measure, and the relevant factual circumstances surrounding the granting of the subsidy, that provide the context for understanding the measure's design, structure, and modalities of operation.⁴⁷ While the Appellate Body has relied on these factors in addressing *de facto* contingency under Article 3.1(a), we consider that they are also relevant to a *de facto* contingency analysis under Article 3.1(b).⁴⁸

5.13. Thus, where an analysis of contingency does not yield a finding of inconsistency under Article 3.1(b) on the basis of the words actually used in the measure, or any necessary implication therefrom, the existence of a requirement to use domestic over imported goods may still be found on the basis of the above-mentioned factors and factual circumstances that form part of the total configuration of the facts constituting and surrounding the granting of the subsidy.⁴⁹ We understand the analysis of *de jure* and *de facto* contingency under Article 3.1(b) as a continuum, starting with the terms of the measure and their necessary implications, and continuing with factors including the measure's design and structure, its modalities of operation, and other

⁴⁰ Relevant dictionary definitions of "over" include "[a]bove in degree, quality, or action; in preference to; more than". (*Shorter Oxford English Dictionary*, 6th edn, A. Stevenson (ed.) (Oxford University Press, 2007), Vol. 2, p. 2048)

⁴¹ Underlining added.

⁴² Appellate Body Report, *Canada – Autos*, para. 143.

⁴³ Appellate Body Report, *Canada – Aircraft*, para. 167.

⁴⁴ Appellate Body Report, *Canada – Autos*, paras. 100 and 123. In particular, the Appellate Body noted that the granting of a subsidy will be *de jure* contingent upon the use of domestic over imported goods also "where the condition ... is clearly, though implicitly, in the instrument comprising the measure", so that even if the underlying legal instrument does not provide *expressis verbis* that the subsidy is available only upon fulfilment of the condition to use domestic over imported goods, "[s]uch conditionality can be derived by necessary implication from the words actually used in the measure." (*Ibid.*, para. 123)

⁴⁵ Appellate Body Report, *Canada – Aircraft*, para. 167.

⁴⁶ Appellate Body Report, *Canada – Aircraft*, para. 167. (emphasis original)

⁴⁷ Appellate Body Report, *EC and certain member States – Large Civil Aircraft*, para. 1046.

⁴⁸ See Appellate Body Report, *Canada – Autos*, para. 123.

⁴⁹ For instance, factual circumstances potentially relevant to an assessment of whether a subsidy is *de facto* contingent may include the existence of a multi-stage production process, the level of specialization of the subsidized inputs, or the level of integration of the production chain in the relevant industry.

relevant circumstances.⁵⁰ A panel should conduct a holistic assessment of all relevant elements and evidence on the record, and need not compartmentalize *de jure* and *de facto* analyses, in order to reach an overall conclusion as to whether a subsidy is contingent upon the use of domestic over imported goods.

5.14. Accordingly, reading the terms of Article 3.1(b) of the SCM Agreement together, we understand the provision to prohibit those subsidies that are *de jure* or *de facto* contingent such that they require the use of domestic goods in preference to, or instead of, imported goods as a condition for receiving the subsidy. While the distinction between *de jure* and *de facto* contingency lies in the "evidence [that] may be employed to prove" that a subsidy is contingent upon the use of domestic over imported goods⁵¹, in both its *de jure* and *de facto* analyses, a panel assesses the consistency of a subsidy under Article 3.1(b) with the same obligation and against a single legal standard of contingency. In each case, an assessment of whether a subsidy is contingent within the meaning of Article 3.1(b) requires a thorough analysis of whether the conditional relationship between the granting of the subsidy and the use of domestic over imported goods is objectively observable on the basis of a careful and rigorous scrutiny of all the relevant evidence. This is especially important when the alleged contingency is not clearly expressed in the language used in the relevant legal instrument.⁵²

5.15. We recall that, by its terms, Article 3.1(b) does not prohibit the subsidization of domestic "production" *per se* but rather the granting of subsidies contingent upon the "use", by the subsidy recipient, of domestic over imported goods.⁵³ Subsidies that relate to domestic production are therefore not, for that reason alone, prohibited under Article 3 of the SCM Agreement.⁵⁴ We note in this respect that such subsidies can ordinarily be expected to increase the supply of the subsidized domestic goods in the relevant market, thereby increasing the use of these goods downstream and adversely affecting imports, without necessarily requiring the use of domestic over imported goods as a condition for granting the subsidy.

5.16. We further note that Article III:8(b) of the GATT 1994 exempts from the national treatment obligation in Article III "the payment of subsidies exclusively to domestic producers". Article III:8(b) makes clear that the provision of subsidies to domestic producers only, and not to foreign ones, does not in itself constitute a breach of Article III. To the extent that "domestic producers" may generally be expected to manufacture a certain amount of "domestic goods" in a Member's territory, Article III:8(b) comports with our reading of Article 3.1(b) under which something more than mere subsidization of domestic production is required for finding an import substitution subsidy. That said, even if the granting of a subsidy is exempt from the GATT national treatment obligation by virtue of it being paid exclusively to domestic producers within the meaning of Article III:8(b) of the GATT 1994, it may still be found to be contingent upon the use by those producers of domestic over imported goods under Article 3.1(b) of the SCM Agreement.

⁵⁰ To the extent that both *de jure* and *de facto* claims have been raised. For instance, a *de facto* contingency analysis may take into account "the design and structure of the measure", which would encompass elements including the terms of the measure. Likewise, an analysis of "the modalities of operation" will involve those set out in the measure and how they may be applied and operate in practice. Finally, the "relevant factual circumstances surrounding the granting of the subsidy that provide the context for understanding the measure's design, structure, and modalities of operation" necessarily include those circumstances that inform one's understanding of the above-mentioned factors and their operation. (Appellate Body Report, *EC and certain member States – Large Civil Aircraft*, para. 1046)

⁵¹ Appellate Body Report, *Canada – Aircraft (Article 21.5 – Brazil)*, fn 46 to para. 47 (quoting Appellate Body Report, *Canada – Aircraft*, para. 167). We recall that one aim of the *de facto* assessment under Article 3.1(b) is to avoid "circumvention of obligations by Members", contrary to the object and purpose of the SCM Agreement. (Appellate Body Report, *Canada – Autos*, para. 142)

⁵² We recall the Appellate Body's statement that proving *de facto* contingency "is a much more difficult task" than establishing *de jure* contingency. (Appellate Body Report, *Canada – Aircraft*, para. 167)

⁵³ Pursuant to Article 2.1 of the SCM Agreement, a subsidy covered under that Agreement should be specific to certain enterprises "within the jurisdiction of the granting authority", or, in other words, domestic producers. Although, pursuant to Article 2.3, prohibited subsidies are "deemed to be specific", they are still subsidies granted to domestic producers. Other provisions of the SCM Agreement also refer to the "territory" of a Member, as well as to "domestic producers" or "domestic production". (See e.g. Article 1.1(a)(1); Article 8.2(b), now lapsed, pursuant to Article 31; Article 10; Article 25; and Article 28 of the SCM Agreement)

⁵⁴ In *Canada – Aircraft (Article 21.5 – Brazil)*, the Appellate Body found it "worth recalling that the granting of a subsidy is not, in and of itself, prohibited under the *SCM Agreement*. Nor does granting a 'subsidy', without more, constitute an inconsistency with that Agreement. The universe of subsidies is vast. Not all subsidies are inconsistent with the *SCM Agreement*. The only 'prohibited' subsidies are those identified in Article 3 of the *SCM Agreement*". (Appellate Body Report, *Canada – Aircraft (Article 21.5 – Brazil)*, para. 47)

5.17. Additionally, we observe that the Appellate Body has found that *de facto* contingency under Article 3.1(a) of the SCM Agreement, and in particular whether a subsidy is "in fact tied to ... anticipated exportation", can be determined by assessing whether "the granting of the subsidy [is] geared to induce the promotion of future export performance by the recipient" and "provides an incentive to skew anticipated sales towards exports", in a way that "is not simply reflective of the conditions of supply and demand in the domestic and export markets undistorted by the granting of the subsidy".⁵⁵ This test is based on the wording of Article 3.1(a) and footnote 4 thereto and, specifically, the terms "actual or anticipated" and "export performance".⁵⁶ Furthermore, similar trade distortions will also occur as a result of subsidies relating to domestic production, which are prohibited under Article 3.1(b) only when they are contingent upon the use of domestic over imported goods. Hence, a test based on an examination of whether a given measure is "geared to induce" the use of domestic products over imports does not answer the question of whether the measure requires the recipient to use domestic over imported goods as a condition for receiving the subsidy.

5.18. In conclusion, we note that, to the extent that no conditionality on the use of domestic over imported goods can be determined, but the effect of the subsidy is to displace or impede, or otherwise cause adverse effects to imports, those effects are disciplined under Part III of the SCM Agreement. In other words, the relevant question in determining the existence of contingency under Article 3.1(b) is not whether the eligibility requirements under a subsidy may *result* in the use of more domestic and fewer imported goods. Rather, the question is whether *a condition requiring* the use of domestic over imported goods can be discerned from the terms of the measure itself, or inferred from its design, structure, modalities of operation, and the relevant factual circumstances constituting and surrounding the granting of the subsidy that provide context for understanding the operation of these factors.

5.2 Whether the Panel erred in its interpretation of Article 3.1(b) of the SCM Agreement

5.19. The European Union claims that, in its *de jure* assessment of the First and Second Siting Provisions, the Panel erroneously interpreted Article 3.1(b) of the SCM Agreement to mean that a prohibited contingency would exist only where the measure "*per se* and necessarily exclude[s]" any use of imported goods.⁵⁷ According to the European Union, the Panel thereby confined the applicability of Article 3.1(b) "to those situations where the subsidy recipient is required under the terms of the subsidy measure, for a given good, to use domestic goods to the complete exclusion of imported goods."⁵⁸ The European Union further claims that, since the legal standard expressed in the word "contingent" is the same for both *de jure* and *de facto* contingency, the error in the Panel's interpretation of Article 3.1(b) in the context of its *de jure* assessment carries over to its *de facto* assessment of the First Siting Provision.⁵⁹

5.20. The United States responds that both the First and Second Siting Provisions address the location of production activities and are silent as to the use of imported or domestic goods.⁶⁰ The United States characterizes the Panel statements with which the European Union takes issue as merely examples, or responses to arguments made by the European Union, instead of as interpretations by the Panel.⁶¹ Also, the United States considers that the European Union's

⁵⁵ Appellate Body Report, *EC and certain member States – Large Civil Aircraft*, paras. 1044-1045 and 1047.

⁵⁶ See Appellate Body Report, *EC and certain member States – Large Civil Aircraft*, para. 1043.

⁵⁷ European Union's other appellant's submission, para. 33 (quoting Panel Report, para. 7.291). See also paras. 37 and 103 (quoting Panel Report, paras. 7.291 and 7.306).

⁵⁸ European Union's other appellant's submission, para. 40. See also para. 103.

⁵⁹ European Union's other appellant's submission, paras. 70-71.

⁶⁰ United States' appellee's submission, paras. 44 and 82 (referring to Panel Report, paras. 7.290, 7.293, and 7.305). See also para. 83.

⁶¹ In particular, the United States argues that the statement made in the context of the Panel's *de jure* analysis of the First Siting Provision "was explicitly an 'example'", and the formulation used in the context of its *de jure* analysis of the Second Siting Provision "appears to have its roots in the terms of the [European Union]'s argument to the Panel". (United States' appellee's submission, para. 43 (quoting European Union's other appellant's submission, para. 38) and para. 84 (referring to European Union's other appellant's submission, para. 103))

argument in the context of the Panel's *de facto* analysis of the First Siting Provision is no different from its argument in the *de jure* context, and, accordingly, fails for the same reasons.⁶²

5.21. We begin our analysis by noting that the European Union does not challenge the Panel's articulation of the legal standard under Article 3.1(b) of the SCM Agreement as developed in the interpretative sections of its Report.⁶³ Instead, the European Union takes issue with certain subsequent statements made by the Panel in the context of its *de jure* contingency analyses of the First and Second Siting Provisions, and its *de facto* contingency analysis of the First Siting Provision, all of which the European Union reads as articulating a legal standard requiring the use of domestic goods to the complete exclusion of imported goods.

5.22. We agree with the European Union's contention that the existence of contingency under Article 3.1(b) is not limited to cases where the measure requires the subsidy recipient to use domestic goods to the complete exclusion of imported goods. Article 3.1(b) requires establishing the existence of contingency upon the use of domestic over imported goods, but does not require demonstrating any particular quantity or level of displacement of imported goods by domestic goods in order to determine such contingency. The question before us, therefore, is whether in its analysis the Panel indeed articulated a legal standard requiring the use of domestic goods to the complete exclusion of imported goods.

5.23. We observe that, before the Panel, the European Union submitted that: (i) the terms of the First Siting Provision required Boeing to commit to use wings and fuselages produced or assembled in Washington in the final assembly of the 777X in Washington⁶⁴; and (ii) under the Second Siting Provision, the B&O aerospace tax rate would continue to apply only if Boeing assembles the wings and the 777X exclusively in Washington.⁶⁵ However, the Panel's reading of these provisions was different. The Panel considered that, on its face, the First Siting Provision concerns the *siting* of a "significant commercial airplane manufacturing program", which "in turn requires that a producer commit to *manufacture* within the state of Washington" a model of a commercial airplane, as well as fuselages and wings for that model.⁶⁶ The Panel did not find anywhere "in the words used in the First Siting Provision ... a requirement that makes the entry into force of the challenged measures contingent upon a determination that domestic goods will be used instead of imported products."⁶⁷ The Panel thus found that, by its words, "the First Siting Provision is silent as to the use of imported or domestic goods."⁶⁸ The Panel also found that "the Second Siting Provision is silent as to the use of imported or domestic goods".⁶⁹ For the Panel, there is "no express indication in the terms of the [Second Siting Provision] that the subsidy ... would be lost by importing wings", and its words do not "expressly condition the receipt of a subsidy on the use of domestic over imported goods".⁷⁰

5.24. The Panel then went on to examine, in respect of each of the First and Second Siting Provisions, whether a prohibited import substitution contingency could be derived "by necessary

⁶² United States' appellee's submission, para. 69.

⁶³ The Panel observed that, "[i]n order to find contingency in the sense of Article 3.1(b), such contingency must be a necessary condition so that the recipient would not benefit from the subsidy unless domestic goods are used instead of, or in preference to, imported goods." (Panel Report, para. 7.274) In setting out the standard for determining the existence of *de jure* contingency under Article 3.1(b), the Panel observed that "a contingency that is not set out expressly in the relevant legislation may nevertheless be derived by necessary implication if such contingency results inevitably from the words actually used in the legislation, or if any other interpretation would be unreasonable." (Ibid., para. 7.273 (fn omitted)) In setting out the standard for determining the existence of *de facto* contingency under Article 3.1(b), the Panel noted that "the European Union will need to demonstrate that there is something about the design and structure of the challenged measures and their operation, in the circumstances in which the measures have been introduced and exist, that establishes the contingency, and does so with the requisite standard of certainty." (Ibid., para. 7.321)

⁶⁴ Panel Report, para. 7.288 (referring to European Union's first written submission to the Panel, para. 44).

⁶⁵ Panel Report, para. 7.304 (referring to European Union's first written submission to the Panel, para. 52).

⁶⁶ Panel Report, para. 7.287. (emphasis original) See also paras. 7.289 and 7.293.

⁶⁷ Panel Report, para. 7.290.

⁶⁸ Panel Report, para. 7.290.

⁶⁹ Panel Report, para. 7.305.

⁷⁰ Panel Report, para. 7.305. See also para. 7.308.

implication" from the language of the provisions.⁷¹ It was in this context that the Panel, first in respect of the First Siting Provision, made the statement with which the European Union takes issue:

The Panel sees nothing in the language of the siting contingency contained in the First Siting Provision that would per se and necessarily exclude the possibility for the airplane manufacturer to use wings or fuselages from outside the state of Washington (if, for example, it continued manufacturing *some* fuselages and wings in the state of Washington, with the additional use of fuselages and wings that were manufactured separately elsewhere).⁷²

5.25. Similarly, in respect of the Second Siting Provision, the Panel stated that:

... the siting contingency contained in the Second Siting Provision would not per se and necessarily exclude the possibility for the airplane manufacturer to use wings from outside the state of Washington ..., as long as it did not relocate the previously sited manufacturing of wings outside the state of Washington.⁷³

5.26. We recognize that, if read in isolation, these statements could possibly be understood as suggesting a legal standard under Article 3.1(b) that requires the use of domestic goods to the complete exclusion of imported goods. However, when these words are considered in the context of the rest of the Panel's *de jure* contingency analyses of the First and Second Siting Provisions, it becomes clear that the Panel did not articulate such a legal standard.

5.27. To begin with, as the Panel found, by their terms, both the First and Second Siting Provisions speak of "siting" and a commitment to "manufacture" or "assemble" certain goods, and are silent as to the "use" of any imported or domestic goods. Turning to the "necessary implication" of the terms of the First and Second Siting Provisions, the Panel considered that a reading under which Boeing would be required to use domestic over imported goods was just one among several possible readings of these provisions. In the Panel's view, while the terms of the First Siting Provision could result in the use by Boeing of some wings and fuselages produced in Washington, this did not necessarily mean that the provision, by its terms, requires Boeing to use domestic over imported wings and fuselages.⁷⁴ Similarly, with respect to the Second Siting Provision, the Panel found that it does not inevitably result from the terms of the provision that the importation of wings would amount to the "siting" of production activities outside Washington, "even if such an outcome is not excluded by [its] text".⁷⁵ Having considered other possible readings of the terms of both provisions⁷⁶, the Panel concluded that "[t]he contingency on siting certain production activities within the state of Washington [under the First Siting Provision] does not entail any explicit, or any necessarily implied, requirement to use domestic goods"⁷⁷, and that "[n]o express or obvious contingency results from the terms used in the [Second Siting Provision], nor can one be derived inevitably from its terms."⁷⁸ Thus, the Panel found that the First and Second Siting Provisions do not, by their terms or by necessary implication therefrom, require the use of domestic over imported goods as a condition for receiving the subsidies.

5.28. When read in this context, we understand the Panel's statements challenged by the European Union – that nothing in the terms of the First and Second Siting Provisions would "*per se and necessarily exclude*" the possibility for Boeing to use goods from outside Washington – as referring to the "implications" of those terms and merely recognizing that a condition requiring the

⁷¹ Panel Report, paras. 7.291 and 7.306.

⁷² European Union's other appellant's submission, para. 37 (quoting Panel Report, para. 7.291 (*italics original*; underlining added by the European Union)).

⁷³ Panel Report, para. 7.306. (underlining added)

⁷⁴ According to the Panel, while "[t]he terms actually used in the [First Siting Provision] do not preclude a scenario in which ... wings and fuselages manufactured in the state of Washington were 'used' in the final assembly of 777X commercial airplanes in the state of Washington", the fact "[t]hat such a scenario may be possible on the basis of terms used in the First Siting Provision ... is not the same as concluding that it is a requirement or condition for the subsidies that necessarily derives from those terms." (Panel Report, para. 7.293)

⁷⁵ Panel Report, para. 7.310. See also para. 7.306.

⁷⁶ Panel Report, paras. 7.294 and 7.309.

⁷⁷ Panel Report, para. 7.296.

⁷⁸ Panel Report, para. 7.310.

use of domestic over imported goods could not be "necessarily" derived from the language of the First and Second Siting Provisions. In particular, in our view, the phrase "*per se* and necessarily exclude" links back to the Panel's understanding of the words "necessary implication" as referring to contingency that must "result inevitably from the words actually used in the legislation", or that "any other interpretation would be unreasonable".⁷⁹ In this light, we understand the Panel to have simply recognized that, based on both the words actually used in the First and Second Siting Provisions and by the necessary implication from those words, no *de jure* requirement existed for Boeing to use domestic over imported goods.

5.29. Moreover, we recall the European Union's assertions before the Panel that, under the First Siting Provision, Boeing "commit[ted] to use wings and fuselages produced or assembled in Washington State" and "[i]f Boeing had not committed to using US-made wings and fuselages [it would have] thereby failed to satisfy the [First Siting Provision]".⁸⁰ Furthermore, the European Union argued before the Panel that, "under the Second Siting Provision, the B&O aerospace tax rate would only continue in force 'if Boeing assembles the wings and assembles the aircraft *exclusively* in Washington State'" and "if Boeing purchases *any* 777X wings from outside the state of Washington, it would lose the B&O aerospace tax rate for all revenue related to sales of the 777X aircraft."⁸¹ In our view, it appears that, in making its statement that the First and Second Siting Provisions do not "*per se* and necessarily exclude" the possibility for Boeing to use wings outside Washington, the Panel was not articulating a legal standard, but was rather addressing certain contentions advanced by the European Union. The European Union also takes issue with the Panel's statements that the Second Siting Provision "does not make the receipt or continued enjoyment of subsidies dependent on refraining from using imported products" and "does not require that the goods for that production (whether they be wings or anything else) need to be sourced *only* from within the state of Washington".⁸² For the same reason as just explained, we do not consider that these statements reflect a legal standard requiring the use of domestic goods to the complete exclusion of imported goods.⁸³

5.30. Finally, we also do not see that a legal standard requiring the complete exclusion of imports is reflected in the Panel's ultimate conclusions. The Panel found that the terms of the First Siting Provision "in no case condition, either explicitly or by necessary implication, the availability of subsidies on the use of domestic over imported goods by the manufacturer"⁸⁴ and that "the Second Siting Provision does not indicate on its face that the B&O aerospace tax rate would cease to apply if the aircraft manufacturer in question 'uses' imported products instead of domestic products."⁸⁵ Therefore, as we see it, the Panel's conclusions that the First and Second Siting Provisions are not *de jure* contingent under Article 3.1(b) were based on its findings that: (i) the contingencies set out in the terms of these provisions relate to the location of certain assembly operations within Washington; (ii) the provisions are silent as to the use of domestic or imported goods; and (iii) the terms of the provisions do not, by necessary implication, prevent the possibility of using imported goods. We therefore do not consider that the Panel, by stating that the terms of these provisions do not "*per se* and necessarily exclude" the possibility of using imported wings and fuselages, was articulating a legal standard under Article 3.1(b) that requires the use of domestic goods to the complete exclusion of imported goods, but rather was casting doubt on the European Union's proposition that the terms of these provisions necessarily required Boeing to use wings and fuselages produced in Washington.

5.31. In connection with its argument regarding the Panel's *de jure* analysis of the First Siting Provision, the European Union advances several additional arguments by which it essentially maintains that, for various reasons, the legal standard under Article 3.1(b) should not be read as

⁷⁹ Panel Report, paras. 7.291 and 7.306.

⁸⁰ Panel Report, para. 7.288 (quoting European Union's first written submission to the Panel, para. 44; and opening statement at the first Panel meeting, para. 68).

⁸¹ Panel Report, para. 7.304 (quoting European Union's first written submission to the Panel, para. 52). (emphasis added)

⁸² Panel Report, para. 7.305. (emphasis original)

⁸³ We note, in particular, that these statements were made immediately after the Panel's summary of the European Union's arguments set out above.

⁸⁴ Panel Report, para. 7.295.

⁸⁵ Panel Report, para. 7.310.

requiring the use of domestic goods to the complete exclusion of imported goods.⁸⁶ Since we have agreed with the European Union on that point, but have concluded that we do not understand the Panel to have articulated such a legal standard, we see no need to further address those arguments.

5.32. The European Union also argues that, since the Panel recognized that the legal standard reflected in the term "contingent" is the same for both *de jure* and *de facto* contingency, and having erred in its *de jure* contingency analysis under Article 3.1(b), the Panel also erred in its interpretation of Article 3.1(b) in the context of its *de facto* contingency analysis of the First Siting Provision.⁸⁷ We note that the Panel focused its analysis on the "actual operation" of the First Siting Provision as confirmed by "additional evidence" available regarding the satisfaction of this provision by the Boeing 777X aircraft program.⁸⁸ As we see it, the Panel's conclusion that the First Siting Provision does not demonstrate *de facto* contingency was based on the absence of any "factual evidence in the Department of Revenue's determination or in how Boeing will organize the sourcing for the production of the 777X indicating a *de facto* requirement to use any domestic goods, including wings or fuselages", and not on an understanding that, in order to establish a violation of Article 3.1(b), the First Siting Provision must require the use of domestic goods to the complete exclusion of imported goods.⁸⁹ Nowhere in its *de facto* analysis did the Panel express a legal standard requiring that the modalities of operation of the First Siting Provision "*per se* and necessarily exclude" any possibility of importing wings and fuselages.⁹⁰ Accordingly, in our view, the legal standard articulated by the Panel in its *de facto* contingency analysis of the First Siting Provision is also in keeping with our interpretation of Article 3.1(b) of the SCM Agreement.

5.33. Furthermore, we do not consider that, as the European Union argues, the Panel's finding of "no indication that the activation of the First Siting Provision was the result of any other factor [besides the siting of the aircraft program], such as a commitment by the manufacturer to use domestic over imported goods"⁹¹ was based on an erroneous interpretation of the words "use of domestic over imported goods".⁹² Instead, the Panel's analysis is in line with its understanding that it was for the European Union "to demonstrate that there is something about the design and structure of the challenged measures and their operation, in the circumstances in which the measures have been introduced and exist, that establishes the contingency."⁹³ Therefore, as we see it, rather than articulating a legal standard that required the use of domestic goods to the complete exclusion of imported goods, the Panel simply found that the additional evidence before it confirmed its understanding of the First Siting Provision in the context of its *de jure* contingency analysis, and was insufficient to establish under Article 3.1(b) that the measure required the use of domestic over imported goods as a condition for granting the subsidy.

5.34. In sum, we consider that, in its *de jure* contingency analyses of the First and Second Siting Provisions, the Panel did not articulate a legal standard under Article 3.1(b) of the SCM Agreement

⁸⁶ The European Union argues that a subsidy subject to the requirements that 50% of all inputs used be domestic and 50% of all inputs be imported would still be contingent upon the use of domestic over imported goods. Similarly, the European Union asserts that the Appellate Body's guidance in *Canada – Autos* supports the proposition that a measure conditioning receipt of a subsidy on the use of a particular domestic good, without requiring that 100% of the goods used are domestic, can give rise to an Article 3.1(b) violation. Furthermore, the European Union contends that the distortion envisaged by Article 3.1(b) arises "where a subsidy distorts the ratio between domestic and imported goods", so that the recipient would use "a larger proportion of domestic goods (and consequently a smaller proportion of imported goods) than it otherwise would have". The European Union also takes the view that the Appellate Body's interpretation of Article 3.1(a) of the SCM Agreement in *EC and certain member States – Large Civil Aircraft* developed in the course of its *de facto* contingency analysis is relevant to the interpretative question in the present case. Finally, the European Union argues that the case law under Article III:4 of the GATT 1994 supports "[t]he proposition that a measure requiring less than the *per se* exclusion of imported goods can give rise to the distortion envisaged by Article 3.1(b)." (European Union's other appellant's submission, paras. 41-51)

⁸⁷ European Union's other appellant's submission, para. 70.

⁸⁸ Panel Report, paras. 7.342-7.345. The Panel considered this evidence to constitute "the entire universe of relevant evidence regarding that provision's operation". (Ibid., para. 7.345)

⁸⁹ Panel Report, para. 7.344.

⁹⁰ For instance, the Panel speaks of conditioning "the availability of subsidies based on whether certain components are sourced from a foreign or domestic origin", or the existence of evidence indicating "a particular use of goods of specific origins", and "of any requirement to use domestic goods in respect of the triggering of that availability". (Panel Report, paras. 7.341, 7.344, and 7.346)

⁹¹ Panel Report, para. 7.343.

⁹² European Union's other appellant's submission, para. 71.

⁹³ Panel Report, para. 7.321.

requiring the use of domestic goods to the complete exclusion of imported goods. Instead, the Panel found that, by their terms, the First and Second Siting Provisions relate to the location of certain assembly operations within Washington and are silent as to the use of domestic or imported goods. Therefore, in stating that these provisions do not "*per se* and necessarily exclude" the possibility for the airplane manufacturer to use inputs from outside Washington, the Panel was not articulating a legal standard, but was rather recognizing that, based on the necessary implications of the provisions' terms, no *de jure* requirement existed for Boeing to use domestic over imported goods. Neither did the Panel articulate such a legal standard in assessing the *de facto* contingency of the First Siting Provision. Rather, the Panel found that the additional evidence before it confirmed its understanding of the First Siting Provision in the context of its *de jure* contingency analysis that the measure does not require the use of domestic over imported goods as a condition for granting the subsidy.

5.35. On the basis of the foregoing, we reject the European Union's claims that the Panel erred in its interpretation of Article 3.1(b) of the SCM Agreement in the context of its *de jure* contingency analyses of the First and Second Siting Provisions, as well as its *de facto* contingency analysis of the First Siting Provision.

5.3 Whether the Panel erred in its application of Article 3.1(b) of the SCM Agreement in the context of its *de jure* contingency analysis in respect of the First Siting Provision

5.36. The European Union claims that the Panel's finding that the First Siting Provision does not, expressly or by necessary implication, require the use of domestic over imported goods constitutes an error in the application of Article 3.1(b) of the SCM Agreement.⁹⁴ In the European Union's view, since the First Siting Provision requires Boeing "to establish the 777X production program in Washington State, '*in which*' the wings and fuselages are to be integrated", and since "at least some 777X wings and fuselages" have to be manufactured in Washington, the provision "appropriates Boeing's commercial decision-making, leaving it with precisely one option if it wants to benefit from billions of US dollars in subsidies – to use at least some of the wings and fuselages manufactured in Washington State, *in* the final assembly of the 777X in Washington State."⁹⁵

5.37. The United States responds that "there is no plausible situation absent the alleged subsidies in which Boeing could have, and would have, imported 777X fuselages or wings."⁹⁶ Moreover, the United States submits that the First Siting Provision "was a one-time determination that was triggered by a *decision* to site an airplane program" before any manufacturing occurred, and "there was no mechanism to reverse the extension of the B&O aerospace tax rate taking effect even if in the end no manufacturing occurred."⁹⁷

5.38. As we noted, the Panel considered several possible readings of the First Siting Provision. The Panel observed that "[t]he terms actually used in the provision do not preclude a scenario in which separately produced wings and fuselages were 'used' in the manner alleged by the European Union, i.e. that wings and fuselages manufactured in the state of Washington were 'used' in the final assembly of 777X commercial airplanes in the state of Washington."⁹⁸ However, according to the Panel, two other "possible and equally reasonable" readings of the terms of the First Siting Provision exist that "would allow the manufacturer to benefit from the subsidies" if it: (i) "used wings and fuselages manufactured outside the state of Washington in the final assembly of 777X commercial airplanes in the state of Washington, so long as it manufactured at least some wings and fuselages in the state of Washington"; or (ii) "stopped manufacturing fuselages, wings, and even commercial airplanes in the state of Washington, as the First Siting Provision involves a one-time decision on the initial establishment, but not the continuation, of certain manufacturing activities."⁹⁹

5.39. In the European Union's view, under all scenarios examined by the Panel, the production requirements in the First Siting Provision leave Boeing with no choice but to use at least some

⁹⁴ European Union's other appellant's submission, para. 64.

⁹⁵ European Union's other appellant's submission, paras. 60-61. (emphases original)

⁹⁶ United States' appellee's submission, para. 53.

⁹⁷ United States' appellee's submission, paras. 63 (emphasis original) and 66.

⁹⁸ Panel Report, para. 7.293.

⁹⁹ Panel Report, para. 7.294.

domestically produced wings and fuselages in its production of the 777X aircraft in Washington.¹⁰⁰ Thus, according to the European Union, "the express text of the First Siting Provision or alternatively, the necessary implications from that text, should have led the Panel to a finding of *de jure* contingency."¹⁰¹

5.40. We begin by observing that, as the European Union argues, the requirement to produce wings and fuselages in Washington would in all likelihood result in the use of at least some domestically produced wings and fuselages in the final assembly of the 777X. In this regard, we recall that the relevant question in determining the existence of contingency under Article 3.1(b) is not whether the eligibility requirements under a subsidy may *result* in the use of more domestic and fewer imported goods, but whether the measure, by its terms or by necessary implication therefrom, sets out *a condition requiring* the use of domestic over imported goods. Thus, in our view, whether any reading of the First Siting Provision "would allow the subsidy recipient to avail itself of the subsidy without the use of domestic over imported wings and fuselages, at least for some aircraft for some time"¹⁰² does not directly address the issue of contingency under Article 3.1(b). Even if, under all scenarios discussed by the Panel, Boeing would likely use some amount of domestically produced wings and fuselages, this observation is not in itself sufficient to establish the existence of a condition, reflected in the measure's terms or arising by necessary implication therefrom, requiring the use of domestic over imported goods.

5.41. In this light, we note the Panel's finding that the condition set out in the terms of the First Siting Provision does not relate to the *use* of domestic or imported goods but rather to the *siting* of certain manufacturing activities in Washington.¹⁰³ In this respect, the Panel was correct in observing that the fact that the terms actually used in the First Siting Provision do not preclude a scenario in which "wings and fuselages manufactured in the state of Washington were 'used' in the final assembly of 777X commercial airplanes in the state of Washington ... is not the same as concluding that it is a requirement or condition for the subsidies that necessarily derives from those terms."¹⁰⁴

5.42. Moreover, the two "alternative" readings of the First Siting Provision by the Panel confirm that the conditionality established on the basis of its terms is linked to the *manufacture* of wings and fuselages, and that the *use* of those products in the final assembly of the 777X is not a condition for receiving the subsidy, but is rather a consequence of the requirement to manufacture them domestically.¹⁰⁵ It appears that the absence of any express language in the First Siting Provision, or any necessary implication therefrom, that would relate to a condition requiring the use of domestic over imported goods in the First Siting Provision, coupled with the fact that it "involves a one-time decision on the initial establishment, but not the continuation, of certain manufacturing activities"¹⁰⁶, were particularly relevant considerations for the Panel's ultimate conclusion that "[t]he contingency on siting certain production activities within the state of Washington does not entail any explicit, or any necessarily implied, requirement to use domestic goods."¹⁰⁷

5.43. Likewise, we draw attention to the Panel's discussion of whether the First Siting Provision requires the same entity to manufacture both the commercial airplane and the fuselages and

¹⁰⁰ According to the European Union, with regard to the first alternative scenario envisaged by the Panel, "[i]f *all* of the 777X wings and fuselages manufactured in Washington State were destroyed, discarded, or indefinitely stored, such that *none of them* would be used in the final assembly of the 777X produced in Washington State, it is impossible to understand in what sense there would be a 777X production program in Washington State *'in which'* 777X wings and fuselages would be integrated – which is what the terms actually used in the measure say and require." Under the second alternative scenario, the European Union argues, "there is a period of time during which the First Siting Provision obligates Boeing to establish the 777X production program in Washington State, *'in which'* the wings and fuselages are to be integrated." Therefore, according to the European Union, "it results from the very words used in the First Siting Provision that even if Boeing could import all of the wings and fuselages some of the time (*quod non*), and some of the wings and fuselages all of the time (*quod non*), it certainly can't import all of the wings and fuselages all of the time." (European Union's other appellant's submission, paras. 59, 60, and 62 (emphases original))

¹⁰¹ European Union's other appellant's submission, para. 64.

¹⁰² European Union's other appellant's submission, para. 62.

¹⁰³ Panel Report, para. 7.293.

¹⁰⁴ Panel Report, para. 7.293.

¹⁰⁵ Panel Report, para. 7.294.

¹⁰⁶ Panel Report, para. 7.294.

¹⁰⁷ Panel Report, para. 7.296.

wings. The Panel observed that, in light of its reading of the terms of this provision, "even if [it] could have been satisfied by two different entities siting two different operations in the state of Washington, this situation would neither expressly require nor necessarily imply that domestic goods instead of imported goods would have to be used by either entity."¹⁰⁸ We therefore understand the Panel to have reasoned that, to the extent that no element in the terms of the provision "condition[s], either explicitly or by necessary implication, the availability of subsidies on the use of domestic over imported goods by the manufacturer or manufacturers involved"¹⁰⁹, the existence of such conditionality cannot be established, as the European Union contends, based solely on the fact that the First Siting Provision obliges the subsidy recipient to commence manufacture of both a commercial airplane and fuselages and wings as part of the same production program in Washington.¹¹⁰

5.44. In sum, the relevant question in determining the existence of *de jure* contingency under Article 3.1(b) is not whether the production requirements under the First Siting Provision may *result* in the use of more domestic and fewer imported goods, but whether the measure, by its terms or by necessary implication therefrom, sets out *a condition requiring* the use of domestic over imported goods. Therefore, even if, under the scenarios discussed by the Panel, Boeing would likely use some amount of domestically produced wings and fuselages, this observation is not in itself sufficient to establish the existence of a condition, reflected in the measure's terms or arising by necessary implication therefrom, requiring the use of domestic over imported goods.

5.45. We therefore reject the European Union's claim that the Panel erred in its application of Article 3.1(b) of the SCM Agreement in finding that the First Siting Provision does not make the aerospace tax measures *de jure* contingent upon the use of domestic over imported goods.

5.4 Whether the Panel erred in its application of Article 3.1(b) of the SCM Agreement, or under Article 11 of the DSU, in the context of its *de jure* contingency analysis in respect of the Second Siting Provision

5.46. The European Union further claims that the Panel erred in its application of Article 3.1(b) of the SCM Agreement by unduly restricting the scope of the evidence from which it assessed *de jure* contingency in respect of the Second Siting Provision, and in particular by failing to rely on the United States' "admission" that, "if the completed fuselages and wings were produced outside the United States and then imported, [the Washington Department of Revenue] would likely determine that some final assembly or wing assembly had been sited outside Washington, meaning the Second Siting Provision would be triggered".¹¹¹ According to the European Union, the United States' "admission" constitutes "an agreement between the parties" on the meaning of the Second Siting Provision and evidence as to the "relevant practices of administering agencies"¹¹² that should have been taken into account by the Panel in its *de jure* contingency analysis, insofar as "[a] *de jure* case is built upon the text of the municipal law measure and its meaning."¹¹³

¹⁰⁸ Panel Report, para. 7.295.

¹⁰⁹ Panel Report, para. 7.295.

¹¹⁰ European Union's other appellant's submission, paras. 60-62. The European Union also considers that "the conclusion that the measure is *de jure* contingent on the use of domestic over imported goods is confirmed and corroborated by the 'fact' that aircraft producers are rational commercial actors and would act in a rational manner (e.g., they would not agree to produce the 777X in Washington State and to manufacture 777X wings and fuselages in Washington State, only to destroy, discard, or indefinitely store the 777X wings and fuselages instead of using them in the 777X program established in Washington State)." (Ibid., para. 63) In our view, however, this observation does not alter the assessment as to whether the First Siting Provision, by its terms, makes the granting of the subsidy *de jure* contingent upon the use of domestic over imported goods. In particular, to the extent that this factor does not seem to relate to the terms of the First Siting Provision itself, or to any meaning derived by necessary implication from those terms, we do not see how Boeing's purported conduct as a rational economic actor would be relevant to an analysis of *de jure* contingency. Furthermore, the language of the First Siting Provision is general, and does not refer to specified addressees, but to an "airplane program" that, under certain conditions, may qualify for certain tax benefits. Therefore, we do not see the relevance of Boeing's conduct as a rational economic actor for assessing the meaning of the terms of the First Siting Provision.

¹¹¹ European Union's other appellant's submission, para. 109 (quoting United States' response to Panel question No. 80, para. 119; and referring to response to Panel question No. 43, para. 103).

¹¹² European Union's other appellant's submission, para. 113 (quoting Panel Report, para. 7.8).

¹¹³ European Union's other appellant's submission, para. 116.

5.47. The United States responds that "the supposed 'admission' ... does not address the meaning of the terms used in the Second Siting Provision [but] predicts what [the Washington Department of Revenue] would likely do in a particular hypothetical factual scenario, based on a number of assumptions", and that its response "makes clear that the Second Siting Provision places conditions on the siting of production activity, not the domestic or imported character of any goods that are used."¹¹⁴

5.48. We recall that, whereas *de jure* contingency is demonstrated on the basis of the very words of the measure, or by necessary implication therefrom¹¹⁵, the existence of *de facto* contingency is "*inferred* from the total configuration of the facts constituting and surrounding the granting of the subsidy".¹¹⁶ The factors relevant for establishing the existence of *de facto* contingency include the design and structure of the measure, its modalities of operation, as well as the relevant factual circumstances that provide the context for understanding the measure's design, structure, and modalities of operation.¹¹⁷ However, the legal standard expressed by the word "contingent" is the same for both *de jure* and *de facto* contingency.¹¹⁸ As we have observed, the relevant question under Article 3.1(b) is whether *a condition requiring* the use of domestic over imported goods can be discerned from the terms of the measure itself, or inferred from its design, structure, modalities of operation, and relevant factual circumstances. The factual circumstances potentially relevant to an assessment of whether a subsidy is *de facto* contingent in the circumstances of this case could include, for example, the existence of a multi-stage production process, the level of specialization of the subsidized inputs, or the level of integration of the production chain in the relevant industry.

5.49. We further observe that both import substitution subsidies and other subsidies that relate to domestic production may have adverse effects in respect of imported goods. Subsidies contingent upon import substitution, by their nature, adversely affect competitive conditions of imported products. Yet, also subsidies that relate to the production of certain goods in a Member's domestic territory can ordinarily be expected to increase the supply of the subsidized domestic goods in the relevant market, which would have the consequence of increasing the use of these subsidized domestic goods downstream and adversely affecting imports. In the specific case of subsidies granted for the production of both an input and a final good, subsidy recipients would likely both "produce" and "use" the subsidized inputs in the production of the subsidized final good. Indeed, such subsidies would have consequences for the subsidized producers' input-sourcing decisions to the extent that, having been required to produce an input domestically, and for reasons of production costs and efficiency, they would likely use at least some of these inputs in their downstream production activities. This is even more so in instances where the subsidized input is specialized in nature or where vertical integration between the upstream and downstream stages of the production chain exists. However, while such subsidies may foster the use of subsidized domestic goods and result in displacement in respect of imported goods, such effects do not, in and of themselves, demonstrate the existence of a requirement to use domestic over imported goods.

5.50. At the same time, whether a subsidy is contingent upon the use of domestic over imported goods is to be "*inferred* from the total configuration of the facts constituting and surrounding the granting of the subsidy".¹¹⁹ In particular, factual circumstances, where relevant, may form part of the context for understanding the measure's design, structure, and modalities of operation in a particular market, all of which may assist in discerning whether or not a *de facto* contingency exists. The design and structure of a measure granting a subsidy may be adapted to factual circumstances – such as a multi-stage production process where specialized inputs and final goods are subsidized, or where the production chain is vertically integrated. The modalities of a measure so designed or structured may then operate, such that conditions for eligibility or access to the subsidy may entail a condition requiring the use of domestic over imported goods.¹²⁰ However, whether a subsidy is simply conditional upon the domestic production of certain goods, or upon the

¹¹⁴ United States' appellee's submission, paras. 93-94.

¹¹⁵ See Appellate Body Report, *Canada – Autos*, para. 100. See also para. 123.

¹¹⁶ Appellate Body Report, *Canada – Aircraft*, para. 167. (emphasis original)

¹¹⁷ See Appellate Body Report, *EC and certain member States – Large Civil Aircraft*, para. 1046.

¹¹⁸ See Appellate Body Report, *Canada – Aircraft*, para. 167.

¹¹⁹ Appellate Body Report, *Canada – Aircraft*, para. 167. (emphasis original)

¹²⁰ We note, in this respect, that a subsidy could be contingent upon import substitution "solely or as one of several other conditions", and that therefore subsidies that are conditional upon the *production* of certain goods domestically may at the same time be contingent upon the *use* of domestic over imported goods.

use by the subsidy recipient of domestic over imported goods, should be assessed on a case-by-case basis.

5.51. We have observed above that we understand the analysis of *de jure* and *de facto* contingency under Article 3.1(b) as a continuum, starting with the terms of the measure and their necessary implications, and continuing with factors including the measure's design and structure, its modalities of operation, and other relevant circumstances.¹²¹ Ultimately, in determining the existence of contingency, a panel should conduct a holistic assessment of all relevant elements and evidence on the record, and need not compartmentalize *de jure* and *de facto* analyses in order to reach an overall conclusion as to whether a subsidy is contingent upon the use of domestic over imported goods. A finding of contingency, whether made on a *de jure* or *de facto* basis, yields a finding of inconsistency with Article 3.1(b) of the SCM Agreement under the same legal standard of contingency, namely, whether the measure reflects a condition requiring the use of domestic over imported goods.

5.52. We recall that determining the meaning of domestic law by a panel calls for particular care, and that, in its *de jure* contingency analysis, the Panel in this case had to examine the meaning of the terms of the Second Siting Provision and the necessary implications that flow from those terms. The Panel found that the language of the Second Siting Provision concerns the "siting" of the assembly of certain goods in Washington, rather than the "use" of any goods as a condition for receiving the subsidy¹²², and that several possible readings of its terms exist, such that "an import-substitution contingency [could not] be derived by necessary implication" from those terms.¹²³ The Panel then turned to analyse whether the Second Siting Provision entails a *de facto* contingency, and posed a series of questions to the United States in respect of certain counterfactual scenarios.¹²⁴ The European Union considers that, while the Panel found the United States' responses to these questions "to be of crucial importance, and in fact determinative, in its analysis of *de facto* contingency with respect to the Second Siting Provision", they "inexplicably find[] no mention in the Panel's *de jure* analysis", even though they reflect an "agreement between the parties on the meaning of [the] Second Siting Provision" and a clarification as to the "relevant practices of administering agencies".¹²⁵

5.53. We note that the Panel considered the United States' responses to be "significant in understanding the modalities of operation of the conditions of the Second Siting Provision", which were subject to the Washington Department of Revenue's administrative discretion, and concluded that "the likely actions of the relevant administrative agency in response to possible factual scenarios are indicative of whether, in practice, a subsidy would remain available so long as a manufacturer used domestic goods, while that same subsidy would be terminated if a manufacturer used those same goods from a foreign source."¹²⁶ The Panel therefore conducted an analysis of, and relied upon, these responses in the context of its *de facto* contingency analysis. While it is conceivable that the United States' responses to the Panel's questions may have shed light on the necessary implication of the terms of the Second Siting Provision, they may have been equally relevant for understanding the measure's design, structure, and modalities of operation in the context of the relevant factual circumstances. We recognize that the Panel compartmentalized its *de jure* and *de facto* contingency analyses. It would have been preferable if it had conducted a more holistic assessment of all relevant elements and evidence on the record. However, we do not consider that the Panel erred in considering the United States' responses to its questions in the context of examining the design, structure, and modalities of operation of the Second Siting Provision in the context of the relevant factual circumstances.

5.54. The European Union also claims that, by adopting in the context of its *de jure* analysis an interpretation of the Second Siting Provision "devoid of any evidentiary basis", the Panel failed to make an objective assessment of the matter under Article 11 of the DSU.¹²⁷ The European Union takes issue with the Panel's statements that "the terms 'any final assembly or wing assembly' [in the Second Siting Provision] are explicitly tied, and arguably limited, to the specific assembly operations that were 'the basis of a siting' under the First Siting Provision", and therefore "the

¹²¹ To the extent that both *de jure* and *de facto* claims have been raised.

¹²² Panel Report, para. 7.308.

¹²³ Panel Report, para. 7.306. See also para. 7.309.

¹²⁴ Panel Report, para. 7.361.

¹²⁵ European Union's other appellant's submission, paras. 111 and 113.

¹²⁶ Panel Report, para. 7.365. (emphases added)

¹²⁷ European Union's other appellant's submission, para. 119.

terms of the Second Siting Provision could rather be understood to address the situation in which production activities that had been previously sited in the state of Washington, and had been the basis of the determination by the Department of Revenue pursuant to the First Siting Provision, were subsequently sited outside the state of Washington."¹²⁸

5.55. We agree with the European Union that the words of the Second Siting Provision do not appear to limit its scope of application to the relocation of specific assembly operations that were the basis of a siting under the First Siting Provision.¹²⁹ At the same time, since compliance with the First Siting Provision meant that the 777X wings should have at least been planned to "commence manufacture at a new or existing location within Washington", we consider it reasonable to conclude that *one* situation in which the Second Siting Provision would be triggered is where the production of wings, once sited in Washington pursuant to the First Siting Provision, has been subsequently sited outside of this state. In this regard, we note the Panel's statement that, "[b]ased purely on the wording of [the Second Siting Provision], the terms 'any final assembly or wing assembly' are explicitly tied, and *arguably* limited, to the specific assembly operations that were 'the basis of a siting' under the First Siting Provision."¹³⁰ The Panel also explicitly referred to the possibility of "[a]nother reading of the terms of the Second Siting Provision".¹³¹ In this light, while we do not consider that the scope of application of the Second Siting Provision is limited to the relocation of specific assembly operations that have been previously sited in Washington, we do not see that, in making the statements with which the European Union takes issue, the Panel adopted such an understanding. Instead, the Panel merely described one possible situation under which the Second Siting Provision would be activated.

5.56. In any event, we do not see that the Panel's statements were critical for its ultimate conclusion that the contingency set out in the Second Siting Provision is not that products manufactured in Washington should be "used", but rather that the manufacturing of certain products should not be "sited" outside Washington.¹³² The Panel's finding that the Second Siting Provision does not demonstrate *de jure* contingency upon the use of domestic over imported goods was based more generally on the words used in this provision which do not speak of "component sourcing decisions" and the necessary implication that might flow therefrom, rather than on the fact that the terms "any final assembly or wing assembly" may be limited to the relocation of specific assembly operations that have been previously sited in Washington.¹³³ We therefore disagree with the European Union's contention that the Panel's understanding of the Second Siting Provision is "devoid of any evidentiary basis".¹³⁴

5.57. In sum, we do not consider that the Panel erred in its application of Article 3.1(b) by not examining the United States' responses to its questions in the context of its *de jure* contingency analysis of the Second Siting Provision. In determining the existence of contingency, a panel

¹²⁸ Panel Report, para. 7.305. See European Union's other appellant's submission, para. 120.

¹²⁹ In this regard, we recognize that, whereas the "siting" requirements under the First Siting Provision are that a new or existing model of a commercial airplane, as well as "[f]uselages and wings" of such model, should "commence manufacture" in Washington, the "siting" requirements under the Second Siting Provision concern any "final assembly or wing assembly" of the same model.

¹³⁰ Panel Report, para. 7.305. (emphasis added)

¹³¹ Panel Report, para. 7.309.

¹³² Panel Report, para. 7.308.

¹³³ Panel Report, paras. 7.305 and 7.315.

¹³⁴ European Union's other appellant's submission, para. 119. The European Union raises a number of additional arguments, all of which appear to focus on the same central concern that the Panel understood the Second Siting Provision as limited to the relocation of the assembly operations that were the basis of a siting under the First Siting Provision. In particular, the European Union contends that the Panel's interpretation is contradicted by the words of the First Siting Provision, and that nothing in this provision or in ESSB 5952 "requires the aircraft manufacturer to indicate to the [Washington Department of Revenue] which specific aircraft and wings within the given aircraft model, or how many such aircraft and wings, would be assembled in Washington". The European Union also argues that both parties understood the words of the Second Siting Provision as referring "to the aircraft model in respect of which the First Siting Provision was satisfied, the 777X, and not to 'specific assembly operations'". Furthermore, the European Union recalls its argument that "the Parties agreed that 'if the completed fuselages and wings were produced outside the United States and then imported', the [Second Siting Provision] would be triggered." Finally, according to the European Union, "the Panel's view that the Second Siting Provision does not '*per se* and necessarily exclude the possibility for the airplane manufacturer to use wings from outside the state of Washington [...], as long as it did not relocate the previously sited manufacturing of wings outside the state of Washington'", is contradicted by certain statements made by the United States before the Panel. (Ibid., paras. 126, 127 (emphasis original), 130, and 131 (fn omitted))

should conduct a holistic assessment of all relevant elements and evidence on the record, and need not compartmentalize its *de jure* and *de facto* analyses in order to reach an overall conclusion as to whether a subsidy is contingent upon the use of domestic over imported goods. The United States' responses may have shed light on the necessary implication of the terms of the Second Siting Provision, but they may have been equally relevant for understanding the measure's design, structure, and modalities of operation in the context of the relevant factual circumstances. Therefore, we do not consider that the Panel erred by unduly restricting the scope of the evidence from which it assessed *de jure* contingency with respect to the Second Siting Provision. We also do not consider that the Panel understood the scope of application of the Second Siting Provision as limited to the relocation of specific assembly operations that were the basis of a siting under the First Siting Provision. Instead, the Panel was merely describing one possible situation under which the Second Siting Provision would be activated.

5.58. In view of the above, we reject the European Union's claim that the Panel erred in the application of Article 3.1(b) of the SCM Agreement in finding that the Second Siting Provision, considered separately or jointly with the First Siting Provision, does not make the B&O aerospace tax rate *de jure* contingent upon the use of domestic over imported goods. We also reject the European Union's claim that the Panel failed to make an objective assessment of the matter under Article 11 of the DSU in finding that the Second Siting Provision, considered separately or jointly with the First Siting Provision, does not make the B&O aerospace tax rate *de jure* contingent upon the use of domestic over imported goods.

5.5 Whether the Panel erred in its *de facto* contingency analysis under Article 3.1(b) of the SCM Agreement

5.59. The United States claims that the Panel erred in the interpretation and application of Article 3.1(b) of the SCM Agreement in finding that the B&O aerospace tax rate is *de facto* contingent upon the use of domestic over imported goods. The United States argues that the Panel erroneously interpreted and applied Article 3.1(b) of the SCM Agreement as if it prohibited subsidies conditional upon the domestic siting of production activities.¹³⁵ The United States further submits that, because Boeing does not and will not "use" wings to produce the 777X, the Panel erred in its interpretation and application of Article 3.1(b) in finding that the B&O aerospace tax rate for the 777X aircraft program is contingent upon the "use" of wings for the 777X.¹³⁶ Moreover, the United States argues that the Panel erred in the interpretation and application of Article 3.1(b) in finding that the subsidy is contingent upon the use of "domestic" over "imported" wings because it did not address the meaning of the terms "domestic" or "imported", and did not conduct "a meaningful analysis" as to whether wings resulting from wing assembly in Washington would necessarily be "domestic".¹³⁷ In addition, the United States claims that the manner in which the Panel used hypothetical scenarios to determine what would trigger the Second Siting Provision constitutes an error in the interpretation and application of Article 3.1(b) of the SCM Agreement, or, in the alternative, a failure to make an objective assessment of the matter under Article 11 of the DSU.¹³⁸

5.60. In response, the European Union submits that the Panel did not find that a subsidy contingent solely upon domestic production, without more, would be inconsistent with Article 3.1(b). Rather, for the European Union, "the Panel found that the evidence before it demonstrated the subsidy at issue to be contingent on the use of domestic over imported goods, and in fact going even further, one which '*per se* and necessarily exclude[s]' the possibility that any wing could be imported without the loss of the subsidy."¹³⁹ The European Union submits that, if the United States' argument that wings are not "used" in the production of the 777X were accepted, this would mean that Boeing itself could determine whether or not a challenged subsidy

¹³⁵ United States' appellant's submission, para. 99.

¹³⁶ United States' appellant's submission, para. 124. In this respect, the United States underscores that wings "do not come into existence until the finished airplane itself is completed through the final assembly process". (United States' appellant's submission, para. 115 (fn omitted))

¹³⁷ United States' appellant's submission, para. 126. The United States also contends that the Panel's failure to address the meaning of the terms "domestic" and "imported" constitutes a failure to provide a basic rationale for its findings as required under Article 12.7 of the DSU. (United States' appellant's submission, para. 133)

¹³⁸ United States' appellant's submission, para. 135.

¹³⁹ European Union's appellee's submission, para. 79 (quoting Panel Report, para. 7.367).

would be consistent with Article 3.1(b) by the way it organized its production process.¹⁴⁰ The European Union argues that, even if currently Boeing does not "use" wings, it may do so in the future, but, nevertheless, the subsidy would act to prevent Boeing from using imported wings.¹⁴¹ With respect to the United States' allegation that the Panel did not address the meaning of the terms "domestic" and "imported", the European Union contends that the Panel "revealed an interpretation of the word 'domestic'" in stating that wings sourced from Washington "by definition would be domestic wings".¹⁴² Finally, the European Union submits that, in the present case, the use of hypothetical scenarios by the Panel was inevitable because the Panel was called upon to examine the relationship between the requirements of the Second Siting Provision and events that may occur in the future.¹⁴³

5.61. As the Panel noted, the First and Second Siting Provisions are focused on the siting of assembly activities and do not contain any language requiring in explicit terms, or by necessary implication therefrom, the use of domestic over imported goods.¹⁴⁴ Above we have rejected the European Union's claims that the Panel erred in its interpretation and application of Article 3.1(b) in its analysis of *de jure* contingency. As we have noted, where an analysis of *de jure* contingency does not yield a finding of inconsistency under Article 3.1(b) on the basis of the terms of the measure, or any necessary implication therefrom, a panel may still make a determination that contingency exists on a *de facto* basis where a contingency to use domestic over imported goods can be inferred from the total configuration of the facts surrounding the granting of the subsidy. Analysis of *de facto* contingency may take into account the measure's design and structure, and modalities of operation, as well as the factual circumstances providing context for understanding the subsidy measure and its operation with a view to ascertaining whether a condition requiring the use of domestic over imported goods exists.

5.62. The participants, in their arguments relating to *de facto* contingency under Article 3.1(b), referred to factual circumstances that we consider potentially relevant to an assessment of whether the subsidy at issue is *de facto* contingent. These include the multi-stage nature of the production process, the level of integration of the subsidy recipient, and the degree of specialization of the subsidized inputs, to the extent that they inform and provide context for understanding the measure's design, structure, and modalities of operation. In respect of the Second Siting Provision, the question at issue is whether, notwithstanding that the measure itself expressly concerns only the siting of certain manufacturing and assembly operations, which was found not to demonstrate *de jure* contingency, a condition requiring the use of domestic over imported goods nevertheless exists on a *de facto* basis.

5.63. The Second Siting Provision provides that the B&O aerospace tax rate ceases to apply in a case where the Washington Department of Revenue "makes a determination that any final assembly or wing assembly of any version or variant of a commercial airplane that is the basis of a siting of a significant commercial airplane manufacturing program in [Washington pursuant to the First Siting Provision] has been sited outside the state of Washington."¹⁴⁵ By its express terms, the Second Siting Provision is triggered in the event of a future determination by the Washington Department of Revenue that final assembly or wing assembly "has been sited" outside Washington, and thus the condition contained in the measure concerns the siting or location of the relevant assembly activities. It is the Second Siting Provision's reference to wing assembly, rather than to final assembly, that the Panel considered most relevant to the European Union's claim of *de facto* contingency upon the use of domestic over imported wings.¹⁴⁶

5.64. We recall the relevant aspects of the Panel's analysis of the European Union's claim of *de facto* contingency. The Panel started by noting that its *de facto* analysis "must go beyond the

¹⁴⁰ European Union's appellee's submission, para. 94.

¹⁴¹ European Union's appellee's submission, paras. 108-109.

¹⁴² European Union's appellee's submission, para. 119 (quoting Panel Report, para. 7.364). The European Union points out that the Panel also revealed an interpretation of the terms "domestic" and "imported" by stating that "wings made in Washington State are domestic goods and any imported wings would by definition be made outside of Washington State". (Ibid. (quoting Panel Report, para. 7.367))

¹⁴³ European Union's appellee's submission, paras. 140-141.

¹⁴⁴ Panel Report, paras. 7.297, 7.311, and 7.317.

¹⁴⁵ Panel Report, para. 7.32 (quoting ESSB 5952 (Panel Exhibit EU-3), Sections 5-6(11)(e)(ii)).

¹⁴⁶ Panel Report, para. 7.349. This condition of the Second Siting Provision with respect to the siting of any wing assembly is in force for the entirety of the period during which the B&O aerospace tax rate is in effect under ESSB 5952. (Ibid.)

text of the legislation and ... be based on a holistic examination of all the available evidence" pertaining to the design, structure, modalities of operation, and the relevant factual circumstances surrounding the granting of the subsidies.¹⁴⁷

5.65. In its *de facto* analysis, the Panel evaluated relevant circumstances relating to the Second Siting Provision, in particular, the circumstances in which the provision would be triggered. The Panel distinguished the enforcement mechanism of the Second Siting Provision from that of the First Siting Provision. With respect to the First Siting Provision, the Panel noted that it contemplates "a one-time decision" by the Washington Department of Revenue and that there is "no legal mechanism under Washington State law that would allow the Department of Revenue to revoke that determination".¹⁴⁸ Thus, the Panel concluded that "the First Siting Provision is not a measure whose operation will occur in repeated instances over some (definite or indefinite) period."¹⁴⁹ By contrast, the Panel found that "the role of the Second Siting Provision is to establish conditions for the airplane manufacturing programme that had activated the First Siting Provision (and thus effected the extended availability of the tax benefits) to maintain that programme's access to one of those tax benefits, namely the B&O aerospace tax rate."¹⁵⁰ The Panel recalled that "the Second Siting Provision provides that the 'siting' of 'wing assembly' of the airplane model in question (the 777X) outside Washington State would result in the loss of the B&O aerospace tax rate for the manufacturing or sale of that airplane."¹⁵¹ Noting that "the conditionality in the Second Siting Provision is phrased in the negative", the Panel understood the Second Siting Provision to set forth the factual circumstances that would, if they arose, cause Boeing's 777X aircraft program to lose access to the subsidy.¹⁵² It was thus clear to the Panel that so long as such "siting" does not happen, the Second Siting Provision "remains dormant, operating passively as a deterrent to safeguard the *status quo* (or at least particular aspects thereof) that satisfied the First Siting Provision".¹⁵³ For the Panel, this "passive, deterrent nature of the measure" raised "the question as to what sorts of factual evidence could inform the analysis of whether ongoing access to the B&O aerospace tax rate ... is contingent *de facto* on the use of domestic over imported 777X wings."¹⁵⁴ At the time of the Panel's assessment of this claim, the Second Siting Provision had not been triggered, and therefore no evidence existed as to its actual operation and, in particular, as to what would trigger the Second Siting Provision.¹⁵⁵

5.66. Because the Second Siting Provision had not been triggered, the Panel observed that it was "confronted by the counterfactual question of what would trigger the Second Siting Provision, that is, what action by Boeing would result in the Department of Revenue determining that 777X wing assembly 'has been sited' outside Washington State."¹⁵⁶ The Panel considered "particularly relevant the discretion granted ... to the Department of Revenue to terminate the availability of the B&O aerospace tax rate ... if it determines that Boeing has 'sited' assembly of wings ... outside of Washington State".¹⁵⁷ The Panel underscored that the exercise of discretion granted to the Washington Department of Revenue "would be inconsistent with Article 3.1(b) of the SCM Agreement if, in practice, it resulted in the termination of the B&O aerospace tax rate for ... the 777X programme on the basis of a determination that Boeing, by virtue of using imported 777X wings, had 'sited' 777X wing assembly outside Washington State."¹⁵⁸

¹⁴⁷ Panel Report, para. 7.327. The Panel observed that, since the First Siting Provision was satisfied by Boeing's 777X siting decision, the operation of the First and Second Siting Provisions could not be dissociated. The Panel thus considered "the manner in which the measures at issue are structured, designed, and operate, under the terms of ESSB 5952, and as a result of the First Siting Provision and the Second Siting Provision". (Ibid., para. 7.331)

¹⁴⁸ Panel Report, para. 7.345. (fn omitted)

¹⁴⁹ Panel Report, para. 7.345.

¹⁵⁰ Panel Report, para. 7.346.

¹⁵¹ Panel Report, para. 7.358. The Panel recalled that the expression "has been sited" (used in the Second Siting Provision in the passive tense) is related to a manufacturer locating a manufacturing program in a particular place, which is consonant with the definition of "siting" in the First Siting Provision. (Ibid., fn 663 to para. 7.358 (referring to para. 7.304))

¹⁵² Panel Report, para. 7.346.

¹⁵³ Panel Report, para. 7.358.

¹⁵⁴ Panel Report, para. 7.358.

¹⁵⁵ Panel Report, para. 7.358.

¹⁵⁶ Panel Report, para. 7.359.

¹⁵⁷ Panel Report, para. 7.360.

¹⁵⁸ Panel Report, para. 7.360.

5.67. In an effort to understand what would trigger the Second Siting Provision, the Panel posed two questions to the United States (Panel questions Nos. 40 and 80) based on hypothetical scenarios. Under the first scenario, the Panel asked whether the Second Siting Provision would be triggered if, assuming *arguendo* that it was possible for Boeing to purchase completed wings, Boeing would continue manufacturing wings itself in Washington and, in addition, would purchase wings from another manufacturer in Washington.¹⁵⁹ With respect to the first hypothetical scenario, the United States stated the following:

As alluded to in the Panel's question, and as noted elsewhere, it is not possible for Boeing to purchase completed 777X fuselages and wings. However, assuming *arguendo* that this was not the case, the wording of the question – in particular, the focus on Boeing rather than all taxpayers, and on Boeing "remain[ing] eligible" rather than becoming eligible – assumes that Boeing already fulfilled the First Siting Provision. Once that provision is fulfilled, it contains no legal mechanism for reversing course or otherwise affecting the tax treatment provided for in ESSB 5952. Therefore, assuming *arguendo* that Boeing could purchase completed 777X fuselages and wings, the First Siting Provision still would have no relevance to a decision by Boeing to make such purchases.

Continuing with this same *arguendo* assumption, to determine whether the Second Siting Provision was triggered, DOR would have to evaluate whether Boeing had sited any wing assembly or final assembly outside Washington. The question implies that no such siting outside Washington would have taken place. Therefore, DOR likely would not determine that the Second Siting Provision had been triggered. This is no different than if Boeing cancelled the 777X program altogether. In short, unless DOR determines that 777X final assembly or wing assembly has been sited outside Washington, the Second Siting Provision is not triggered.¹⁶⁰

5.68. Under the second hypothetical scenario, the Panel asked whether the Second Siting Provision would be triggered if Boeing would continue manufacturing wings in Washington and, in addition, would purchase them from another producer outside of Washington.¹⁶¹ With respect to the second hypothetical scenario, the United States explained:

Under the Second Siting Provision, the fact that fuselages and wings are imported is irrelevant. Rather, the Second Siting Provision is triggered only if DOR determines that any final assembly or wing assembly is sited outside Washington. It is the siting of that production activity, not the domestic or imported character of any goods, that is relevant.

Thus, as the United States noted in response to Question 39 – and assuming *arguendo*, contrary to fact, that it is possible for Boeing to import completed fuselages and wings for use in the production of the 777X – if the completed fuselages and wings were produced outside the United States and then imported, DOR would likely determine that some final assembly or wing assembly had been sited outside Washington, meaning the Second Siting Provision would be triggered. However, taking another hypothetical that ignores for the sake of argument what is realistic, and applying the EU's approach to "domestic" and "imported," if Boeing assembled completed fuselages and wings in Washington, sent them to a foreign company to conduct non-assembly operations (e.g. cosmetic painting of logos or testing), and then imported them, the Second Siting Provision would not be triggered, despite that under the EU's approach, Boeing was using imported goods.

Again, the Second Siting Provision is focused on the siting of production activity – in particular, the siting of assembly operations. This is significant in light of the distinction drawn by the EU at the second Panel meeting between the use of goods within the meaning of Article 3.1(b), and what are "just assembly operations."¹⁶²

¹⁵⁹ Panel question No. 40.

¹⁶⁰ United States' response to Panel question No. 40, paras. 96-97. (emphasis original)

¹⁶¹ Panel question No. 80.

¹⁶² United States' response to Panel question No. 80, paras. 118-120. (emphasis original)

5.69. In addition, we note that, in answering Panel question No. 7 as to whether the B&O aerospace tax rate would still apply if there were a single instance of assembly outside Washington, the United States responded:

At the outset, it is important to note that there is no realistic scenario in which only a single instance of final assembly or wing assembly would take place outside of Washington. These are complex manufacturing activities that require large investments in sophisticated facilities and tools, a trained workforce, and integration into the larger production process. And as the United States has explained, the wing assembly for the 777X is only completed as part of the final assembly of the finished airplane. However assuming for the sake of argument that there was an isolated instance of final assembly or wing assembly outside Washington, such isolated assembly may not be a siting outside the state that would trigger the Second Siting Provision.

The Second Siting Provision refers to a determination by DOR that any final assembly or wing assembly "has been *sited* outside the state of Washington." The word "sited," particularly in conjunction with a process like "assembly," connotes a decision not associated with a one-off exception. In essence, there is no such thing as a siting of a one-time final assembly or wing assembly. Thus, if such an exception did occur in a single instance, it is unlikely DOR would determine that Boeing had *sited* any final assembly or wing assembly outside of Washington. Accordingly, the 0.2904 percent B&O tax rate would continue to apply.¹⁶³

5.70. The Panel considered the United States' responses to Panel questions Nos. 40 and 80 "significant in understanding the modalities of operation of the conditions of the Second Siting Provision".¹⁶⁴ On the basis of the United States' responses, the Panel concluded that "the Second Siting Provision is not only aimed at ensuring that [Boeing] itself assemble the 777X wings or conduct the final assembly of the 777X"¹⁶⁵; rather, for the Panel, "[i]t also concerns the 'use' of certain goods [i.e. wings], and specifically the origin of those goods that enter into the production process for the 777X as a condition for the continued availability of a subsidy."¹⁶⁶ In the Panel's view, whether or not the Second Siting Provision would be triggered would be determined by the origin of the wings. The Panel concluded that "the *only* decision by Boeing to source wings which it would then 'use' in producing the 777X that *would not* trigger the Second Siting Provision would be to source such wings within Washington State, which by definition would be domestic wings."¹⁶⁷ The Panel further considered that the United States' responses clarified that the term "or" in the Second Siting Provision "contemplates, and seeks to prevent *inter alia*, any wings ... from being produced as separate products outside Washington State ... that would then be shipped to Washington State for incorporation in the final assembly process."¹⁶⁸ On this basis, the Panel found that no wings can "be sourced by Boeing from outside the state of Washington without the consequence of activating the Second Siting Provision".¹⁶⁹ Thus, the Panel based its conclusions on the United States' responses to Panel questions Nos. 40 and 80. We note that the Panel did not address in its analysis the relevance of the United States' response to Panel question No. 7 that a single instance of assembly outside Washington would not trigger the Second Siting Provision.

5.71. In evaluating the Panel's assessment of the Second Siting Provision, we take note of the Panel's key conclusion that the United States' responses clarify that the Second Siting Provision is "not only aimed at" preventing the siting of assembly operations outside of Washington, but "also concerns the 'use' of certain goods, and specifically the origin of those goods".¹⁷⁰ We do not consider that a statement by the Panel that a measure may "concern" the domestic or imported origin of goods is in itself sufficient to establish the existence of *de facto* contingency to use domestic over imported goods within the meaning of Article 3.1(b). As we have noted, the relevant question in determining the existence of contingency under Article 3.1(b) is not whether a condition for eligibility under a subsidy may *result* in the use of more domestic and fewer imported

¹⁶³ United States' response to Panel question No. 7, paras. 15-16. (fn omitted; emphasis original)

¹⁶⁴ Panel Report, para. 7.365.

¹⁶⁵ Panel Report, para. 7.364.

¹⁶⁶ Panel Report, para. 7.366.

¹⁶⁷ Panel Report, para. 7.364. (emphasis original)

¹⁶⁸ Panel Report, para. 7.366.

¹⁶⁹ Panel Report, para. 7.368.

¹⁷⁰ Panel Report, para. 7.366. See also para. 7.364.

goods. Rather, the question is whether *a condition requiring* the use of domestic over imported goods can be discerned from the terms of the measure itself, or inferred from the measure's design, structure, and modalities of operation, in light of the relevant factual circumstances that provide the context for understanding the measure and its operation.

5.72. Other statements by the Panel underscore its understanding that the operation of the siting condition under the measure at issue may relate only to certain *consequences* for the importation of goods. The Panel considered that "so long as this 'siting' does not happen", the Second Siting Provision "remains dormant", and that it was this "particular passive, deterrent nature of the measure" that raised the question "as to what sorts of factual evidence could inform the analysis of whether ongoing access to the B&O aerospace tax rate ... under the 777X programme is contingent *de facto* on the use of domestic over imported 777X wings."¹⁷¹ For the Panel, this made the question as to how the Washington Department of Revenue would exercise the discretion granted to it under the measure and, specifically, the Second Siting Provision "particularly relevant".¹⁷² The Panel concluded that the responses provided by the United States regarding what might trigger the Second Siting Provision demonstrate that the language of this provision "contemplates, and seeks to prevent *inter alia*, any wings ... from being produced as separate products outside Washington State ... that would then be shipped to Washington State for incorporation in the final assembly process".¹⁷³

5.73. While the Panel is correct to note that the measure may prevent assembly of completed wings abroad, in our view, this does not mean that the Second Siting Provision "contemplates" and "seeks to prevent" imports of completed wings. While it is not unusual that, in order to receive a subsidy, the recipient is required to meet certain conditions, it is not entirely clear how the Washington Department of Revenue would exercise its discretion and whether a loss of the subsidy by the recipient, if these conditions are not met, would demonstrate the existence of a requirement to use domestic over imported goods. In any event, it is the location of production, not the imported or domestic origin of the resulting product, that would trigger the loss of the B&O aerospace tax rate.

5.74. Thus, we do not consider that the Panel's analysis and reasoning is sufficient to establish that the way the Second Siting Provision operates with respect to the siting of production and assembly makes the B&O aerospace tax rate *de facto* contingent upon the use of domestic over imported goods. In addition, we do not understand how statements made by the Washington Governor "about the goal of keeping 777X wing production in Washington" are, in the Panel's words, "consistent" with its conclusion that the Second Siting Provision demonstrates *de facto* contingency.¹⁷⁴ If anything, these statements simply underscore that the Second Siting Provision relates to a requirement not to site certain production and assembly activities outside Washington.

5.75. We consider it significant that the Second Siting Provision is focused on the "siting" of assembly activities. As we have noted, although conditions for eligibility and access to a subsidy may entail certain consequences for a domestic producer's sourcing decisions between domestic and imported goods, this alone does not equate to *a condition requiring* the use of domestic over imported goods. The Panel itself appears to have recognized this when it stated that the focus of its assessment was "not whether the measures at issue have had an import substitution effect or a detrimental impact on imports, as this would [have] require[d] the Panel to trespass into an adverse effects analysis of the type that is not contemplated by Article 3.1."¹⁷⁵ Yet, by relying on the consequence that a domestic siting provision has for the importation of goods produced through assembly operations sited abroad, the Panel itself, in our view, built its reasoning on the very observations concerning any consequential "import substitution effect" and "detrimental impact on imports" that the Panel stated would be inappropriate in an Article 3.1(b) analysis.

5.76. We recall, in this respect, that a subsidy requiring the siting of certain production activities in a Member's domestic territory can ordinarily be expected to increase the supply of the subsidized domestic goods in the relevant market, which would have the consequence of increasing the use of these subsidized domestic goods in downstream production and adversely

¹⁷¹ Panel Report, para. 7.358.

¹⁷² Panel Report, para. 7.360.

¹⁷³ Panel Report, para. 7.366.

¹⁷⁴ Panel Report, para. 7.366.

¹⁷⁵ Panel Report, para. 7.357.

affecting imports. In the specific case of subsidies granted for the production of inputs – e.g. wings and fuselages – the subsidy recipient would likely both "produce" and "use" the subsidized inputs in the production and assembly of the subsidized final good. Indeed, subsidies in these circumstances have consequences for the input-sourcing decisions of the subsidized producers to the extent that, having been required to produce an input domestically, and for reasons of production costs and efficiency, they will likely use these inputs in their downstream production activities. This holds particularly true in circumstances where the subsidized inputs are very specialized in nature and the manufacturing and assembly stages of the production chain are highly integrated. However, while a subsidy may operate in such factual circumstances so as to foster the use of subsidized domestic inputs, and thereby result in adverse effects on imports within the meaning of Part III of the SCM Agreement, such effects do not, in and of themselves, demonstrate the existence of a requirement to use domestic over imported goods within the meaning of Article 3.1(b) of that Agreement.

5.77. We also take note of the United States' responses to Panel questions involving certain "counterfactual scenarios"¹⁷⁶ regarding what determination the Washington Department of Revenue would likely make if Boeing were to import completed fuselages and wings. At the outset, we wish to recall that using counterfactual or hypothetical scenarios is a permissible tool of legal analysis that may be particularly relevant in WTO dispute settlement, including in the context of the SCM Agreement.¹⁷⁷ Moreover, the absence of evidence pertaining to the actual application of a measure should not preclude the possibility for a Member to challenge a law that has not yet been applied.¹⁷⁸ Especially when the alleged contingency is not clearly expressed in the language of the relevant legal instrument, a thorough analysis of the relationship between the granting of the subsidy and the condition requiring the use of domestic over imported goods on the basis of a careful scrutiny of all relevant factors and factual circumstances is required. We emphasize, in this respect, that the manner in which the Washington Department of Revenue would exercise its discretion to terminate the availability of the B&O aerospace tax rate was "particularly relevant"¹⁷⁹ for the Panel. Thus, critical parts of the Panel's reasoning depended on whether the exercise of discretion by the Washington Department of Revenue would trigger the Second Siting Provision, and the United States' responses were, therefore, of central importance for the Panel's conclusion regarding *de facto* contingency. That said, we consider that panels should exercise caution in basing their findings of *de facto* inconsistency solely or primarily on hypothetical scenarios in situations where limited evidence exists as to a measure's operation.

5.78. With this in mind, we are concerned about the limited consideration that the Panel gave to the United States' responses to the Panel's questions and the conclusions that the Panel drew from them. While we do not take issue with the Panel's use of questions based on hypothetical scenarios, we question the conclusions the Panel drew from the United States' responses. The questions posed by the Panel were conjectural and based on *arguendo* assumptions. We also note the probabilistic nature of the United States' response about how the Washington Department of Revenue might exercise its discretion if certain hypothetical factual circumstances were to arise in the future. Because the Washington Department of Revenue has never made a determination as to what consequence would follow the importation by Boeing of completed 777X wings and fuselages, the Panel called upon the United States to hypothesize as to what determination the Washington Department of Revenue would make at some future point in time, and in respect of market circumstances that do not presently exist. In this regard, the United States limited itself to stating that the Washington Department of Revenue "would likely determine"¹⁸⁰ that importation of completed wings and fuselages would mean that some assembly had been sited outside

¹⁷⁶ Panel Report, para. 7.361.

¹⁷⁷ For example, in examining whether there is a financial contribution within the meaning of Article 1.1(a)(1)(ii) of the SCM Agreement, a panel must determine what revenue would have been "otherwise due", i.e. absent the alleged subsidy. (See Appellate Body Report, *Canada – Autos*, para. 91) Similarly, in examining whether a "benefit" is conferred by a financial contribution within the meaning of Article 1.1(b) of the SCM Agreement, a panel must determine the position of the alleged subsidy recipient in the market absent the alleged subsidy. (See Appellate Body Report, *Canada – Aircraft*, paras. 157-158) In addition, in the context of causation and non-attribution analyses under the Anti-Dumping Agreement, the Safeguards Agreement, and the SCM Agreement, panels are frequently called upon to assess "counterfactual scenarios" in reviewing domestic determinations as to whether injury to the domestic industry would exist in the absence of dumping, increased imports, or subsidized imports.

¹⁷⁸ See GATT Panel Report, *US – Superfund*, para. 5.2.2.

¹⁷⁹ Panel Report, para. 7.360.

¹⁸⁰ United States' response to Panel question No. 80, para. 119.

Washington, thereby triggering the Second Siting Provision. While this statement is no doubt relevant, it appears to have been almost the sole basis for the Panel's conclusion regarding the prospective modalities of operation of the Second Siting Provision.

5.79. We note certain other statements that the United States made in its responses to the Panel's questions. First, the United States emphasized that whether fuselages and wings are imported is "irrelevant" for purposes of the Second Siting Provision because it is the siting of production activities, not the domestic or imported character of goods, that determines whether or not the Second Siting Provision would be triggered.¹⁸¹ This underscores our assessment that any requirement that is to be discerned in the Second Siting Provision relates to the location of assembly activities, and does not in itself demonstrate the existence of a *de facto* requirement to use domestic over imported goods. In our view, the circumstances present in this dispute – such as the existence of a multi-stage production process, the level of specialization of the subsidized inputs, and the level of integration of the manufacturing and assembly chain in the aircraft industry – should have received more careful consideration by the Panel. Second, as the United States also noted in its response to Panel question No. 80, even if importation of completed 777X wings and fuselages were technically possible, not all importation of such structures would carry the consequence that the United States outlined, for there could be a scenario in which assembly would still occur in Washington, but the export of such structures for non-assembly operations and the subsequent importation of those structures would not trigger the Second Siting Provision. Third, we recall that, in response to Panel question No. 7, the United States indicated that an isolated instance of final assembly or wing assembly outside Washington "may not be a siting outside the state that would trigger the Second Siting Provision".¹⁸² This response by the United States calls into question the Panel's conclusion drawn on the basis of the United States' responses to Panel questions Nos. 40 and 80.

5.80. Read together, the above statements by the United States reflect important caveats that further attenuate the United States' response as to the Washington Department of Revenue's "likely" determination if Boeing were to import completed wings or fuselages. Importantly, we also note that the Panel did not refer in its Report to any of the statements set out in the preceding paragraph, either in its description of the United States' responses to the Panel's questions, or when it reasoned its finding of *de facto* contingency. Given the Panel's near sole reliance on the United States' responses to Panel questions Nos. 40 and 80, we would have expected the Panel to have conducted a more careful analysis and provided an explanation as to how it could justify its singular reliance on the United States' responses in light of the various caveats in those responses. We recall, in this connection, the Appellate Body's statement in *Canada – Aircraft* that, in examining the total configuration of facts constituting and surrounding the granting of the subsidy, no one factor "on its own is likely to be decisive in any given case".¹⁸³ In our view, the United States' responses to the Panel's questions do not seem to have indicated anything more than a consequence of not fulfilling the conditions for the granting of the subsidy. Such consequences, together with other possible consequences of the subsidy at issue that may have some bearing on Boeing's input-sourcing decisions, are not sufficient to demonstrate that the Second Siting Provision, which was found not to demonstrate *de jure* contingency, nevertheless entails a *de facto* requirement to use domestic over imported goods.

5.81. In sum, we do not see that the Panel properly established that the Second Siting Provision, in addition to the conditions relating to the siting of production activities, also entails a condition requiring the use of domestic over imported goods. The United States' response to Panel question No. 80 regarding the Washington Department of Revenue's "likely" determination in the event that completed fuselages and wings were imported clarifies that it is the location of production activities, not the imported or domestic character of the goods produced, that triggers the Second Siting Provision. In light of the various caveats to the United States' responses, the implications of which were neither mentioned nor reasoned in the Panel Report, we do not consider that the Panel's analysis and reasoning provided a sufficient basis for its finding that the Second Siting Provision makes the B&O aerospace tax rate *de facto* contingent upon the use of domestic over imported goods within the meaning of Article 3.1(b) of the SCM Agreement.

¹⁸¹ United States' response to Panel question No. 80, para. 118.

¹⁸² United States' response to Panel question No. 7, para. 15.

¹⁸³ Appellate Body Report, *Canada – Aircraft*, para. 167.

5.82. For the foregoing reasons, we reverse the Panel's finding, in paragraphs 7.369 and 8.1.c of its Report, that the B&O aerospace tax rate is *de facto* contingent upon the use of domestic over imported goods within the meaning of Article 3.1(b) of the SCM Agreement. Accordingly, we also reverse the Panel's finding, in paragraph 8.2 of its Report, that the United States has acted inconsistently with Article 3.2 of the SCM Agreement.

5.83. We note that the United States raised a number of additional claims concerning the Panel's interpretation and application of Article 3.1(b) of the SCM Agreement. In particular, the United States takes issue with the Panel's finding that Boeing "uses" wings to manufacture the 777X and argues that the Panel did not conduct "a meaningful analysis" as to whether wings resulting from wing assembly in Washington would necessarily be "domestic".¹⁸⁴ The United States also submits that the Panel's evaluation of the operation of the Second Siting Provision in the context of its *de facto* analysis is inconsistent with the Panel's duty under Article 11 of the DSU to make an objective assessment of the matter.¹⁸⁵ Having reversed the Panel's finding that the B&O aerospace tax rate is *de facto* contingent upon the use of domestic over imported goods within the meaning of Article 3.1(b) of the SCM Agreement, we do not consider it necessary to address further the United States' other claims and arguments.

5.84. We further note the European Union's claim that the Panel failed to make an objective assessment of the matter under Article 11 of the DSU by treating as conclusive the language of the contingency described in the First Siting Provision and the Washington Department of Revenue's determination regarding Boeing's decision to locate "a significant commercial airplane manufacturing program" in Washington, and thereby "failing to properly consider the implications of that condition on Boeing's incentives to use domestic over imported 777X wings or 777X fuselages in its Washington State production of the 777X".¹⁸⁶ In light of our reversal of the Panel's finding that the B&O aerospace tax rate is *de facto* contingent upon the use of domestic over imported goods under Article 3.1(b) of the SCM Agreement, we do not consider it necessary to address the European Union's claim. Insofar as the Panel could not have relied on the mere implications of such a domestic siting condition for the importation of goods manufactured abroad, we do not consider that the European Union's argument could have altered the Panel's understanding that the activation of the First Siting Provision was based exclusively on Boeing's decision to locate a significant commercial airplane manufacturing program in Washington, and not on the particular use of goods of specific origins.¹⁸⁷

6 FINDINGS AND CONCLUSIONS

6.1. For the reasons set out in this Report, the Appellate Body makes the following findings and conclusions.

6.2. With respect to the Panel's interpretation of Article 3.1(b) of the SCM Agreement in the context of its *de jure* contingency analyses of the First and Second Siting Provisions, we consider that the Panel did not articulate a legal standard under Article 3.1(b) requiring the use of domestic goods to the complete exclusion of imported goods. Instead, the Panel found that, by their terms, the First and Second Siting Provisions relate to the location of certain assembly operations within Washington and are silent as to the use of domestic or imported goods. Therefore, in stating that these provisions do not "*per se* and necessarily exclude" the possibility for the airplane

¹⁸⁴ United States' appellant's submission, paras. 124 and 126.

¹⁸⁵ First, the United States argues that the Panel's findings, drawn primarily from the United States' answers to Panel questions Nos. 40 and 80, relied on a flawed understanding of how the Second Siting Provision would operate in hypothetical scenarios that had no basis in evidence. Second, the United States challenges the Panel's conclusion that the expression "or" in the Second Siting Provision "contemplates, and seeks to prevent *inter alia*, any wings ... from being produced as separate products outside Washington State". Third, the United States challenges the weight that the Panel attributed to certain elements of evidence, in particular, to certain statements by the Governor of Washington. Finally, the United States points out that the Panel did not rely in its analysis on its own statement that Section 12 wing structures are not "wings". (United States' appellant's submission, paras. 165-191)

¹⁸⁶ European Union's other appellant's submission, para. 75. (emphasis original) For the European Union, the requirements for "Boeing to both (i) produce the 777X aircraft, and (ii) manufacture 777X wings and 777X fuselages, all in Washington State" "together *necessarily imply* that the 777X wings and 777X fuselages manufactured in Washington State were for use *in* the production of the 777X aircraft in Washington State." (Ibid., para. 76 (emphasis original; fn omitted))

¹⁸⁷ Panel Report, paras. 7.343-7.344.

manufacturer to use inputs from outside Washington, the Panel was not articulating a legal standard, but was rather recognizing that, based on the necessary implications of the provisions' terms, no *de jure* requirement existed for Boeing to use domestic over imported goods. Neither did the Panel articulate such a legal standard in assessing the *de facto* contingency of the First Siting Provision. Rather, the Panel found that the additional evidence before it confirmed its understanding of the First Siting Provision in the context of its *de jure* contingency analysis that the measure does not require the use of domestic over imported goods as a condition for granting the subsidy.

- a. We therefore reject the European Union's claims that the Panel erred in its interpretation of Article 3.1(b) of the SCM Agreement in the context of its *de jure* contingency analyses of the First and Second Siting Provisions, as well as its *de facto* contingency analysis of the First Siting Provision.

6.3. With respect to the Panel's application of Article 3.1(b) of the SCM Agreement in the context of its *de jure* contingency analysis of the First Siting Provision, we consider that the relevant question in determining the existence of *de jure* contingency under Article 3.1(b) is not whether the production requirements under the First Siting Provision may *result* in the use of more domestic and fewer imported goods, but whether the measure, by its terms or by necessary implication therefrom, sets out *a condition requiring* the use of domestic over imported goods. Therefore, even if, under the scenarios discussed by the Panel, Boeing would likely use some amount of domestically produced wings and fuselages, this observation is not in itself sufficient to establish the existence of a condition, reflected in the measure's terms or arising by necessary implication therefrom, requiring the use of domestic over imported goods.

- a. We therefore reject the European Union's claim that the Panel erred in its application of Article 3.1(b) of the SCM Agreement in finding that the First Siting Provision does not make the aerospace tax measures *de jure* contingent upon the use of domestic over imported goods.

6.4. With respect to the Panel's application of Article 3.1(b) of the SCM Agreement in the context of its *de jure* contingency analysis of the Second Siting Provision, we do not consider that the Panel erred by not examining the United States' responses to its questions in the context of that analysis. In determining the existence of contingency, a panel should conduct a holistic assessment of all relevant elements and evidence on the record, and need not compartmentalize its *de jure* and *de facto* analyses in order to reach an overall conclusion as to whether a subsidy is contingent upon the use of domestic over imported goods. The United States' responses may have shed light on the necessary implication of the terms of the Second Siting Provision, but they may have been equally relevant for understanding the measure's design, structure, and modalities of operation in the context of the relevant factual circumstances. Therefore, we do not consider that the Panel erred by unduly restricting the scope of the evidence from which it assessed *de jure* contingency with respect to the Second Siting Provision. We also do not consider that the Panel understood the scope of application of the Second Siting Provision as limited to the relocation of specific assembly operations that were the basis of a siting under the First Siting Provision. Instead, the Panel was merely describing one possible situation under which the Second Siting Provision would be activated.

- a. We therefore reject the European Union's claim that the Panel erred in the application of Article 3.1(b) of the SCM Agreement in finding that the Second Siting Provision, considered separately or jointly with the First Siting Provision, does not make the B&O aerospace tax rate *de jure* contingent upon the use of domestic over imported goods.
- b. We also reject the European Union's claim that the Panel failed to make an objective assessment of the matter under Article 11 of the DSU in finding that the Second Siting Provision, considered separately or jointly with the First Siting Provision, does not make the B&O aerospace tax rate *de jure* contingent upon the use of domestic over imported goods.

6.5. With respect to the Panel's *de facto* contingency analysis under Article 3.1(b) of the SCM Agreement, we do not see that the Panel properly established that the Second Siting

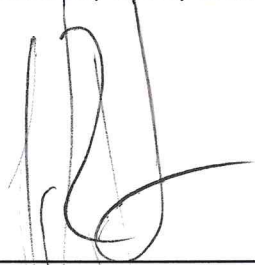
Provision, in addition to the conditions relating to the siting of production activities, also entails a condition requiring the use of domestic over imported goods. The United States' response to Panel question No. 80 regarding the Washington Department of Revenue's "likely" determination in the event that completed fuselages and wings were imported clarifies that it is the location of production activities, not the imported or domestic character of the goods produced, that triggers the Second Siting Provision. In light of the various caveats to the United States' responses, the implications of which were neither mentioned nor reasoned in the Panel Report, we do not consider that the Panel's analysis and reasoning provided a sufficient basis for its finding that the Second Siting Provision makes the B&O aerospace tax rate *de facto* contingent upon the use of domestic over imported goods within the meaning of Article 3.1(b) of the SCM Agreement.


- a. We therefore reverse the Panel's finding, in paragraphs 7.369 and 8.1.c of the Panel Report, that the B&O aerospace tax rate is *de facto* contingent upon the use of domestic over imported goods within the meaning of Article 3.1(b) of the SCM Agreement.
- b. Accordingly, we also reverse the Panel's finding, in paragraph 8.2 of the Panel Report, that the United States has acted inconsistently with Article 3.2 of the SCM Agreement.

6.6. In light of our reversal of the Panel's finding that the B&O aerospace tax rate is *de facto* contingent upon the use of domestic over imported goods, we do not consider it necessary to address the remainder of the United States' claims and arguments relating to the Panel's analysis of *de facto* contingency in respect of the Second Siting Provision. We also do not consider it necessary to address the European Union's claim that the Panel failed to make an objective assessment of the matter under Article 11 of the DSU with regard to its analysis of *de facto* contingency in respect of the First Siting Provision.

6.7. Having reversed the Panel's finding of inconsistency under Article 3.1(b) of the SCM Agreement, the Appellate Body makes no recommendation in this dispute, and the Panel's recommendation pursuant to Article 4.7 of the SCM Agreement, in paragraph 8.6 of the Panel Report, cannot stand.

Signed in the original in Geneva this 21st day of July 2017 by:



Thomas Graham
Presiding Member

Peter Van den Bossche
Member

Shree Baboo Chekitan Servansing
Member